PRUDENTIAL UNIT TRUSTS QUARTERLY COMMENTARY
30 JUNE 2021

PRUDENTIAL INVESTMENT MANAGERS

COMBINED QUARTERLY COMMENTARY

INCOME | MULTI-ASSET | PROPERTY/EQUITY | GLOBAL | TARGET INCOME

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PRUDENTIAL MONEY MARKET FUND
30 JUNE 2021

QUARTERLY COMMENTARY

MARKET OVERVIEW

Economic growth surprised to the upside in South Africa as Q1 2021 GDP growth measured 4.6% q/q annualised, notably higher than the 2.5% market forecast. Despite the gradual recovery, Stats SA noted that the economy's absolute size was equivalent to that last seen in Q1 2016, five years earlier. Covid-19 vaccine supplies continued to make their way into the country and the government's vaccination programme made headway, but this progress was overshadowed in June as the third wave of Covid infections gathered pace, driven by the more transmissible Delta variant. This prompted President Cyril Ramaphosa to reintroduce Level 2, and subsequently Level 4, lockdown measures, again curtailing vital economic and social activity.

Meanwhile, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5% at its 20 May MPC meeting, warning that slow progress on vaccinations, limited energy supply and policy uncertainty continue to pose downside risks to the economic outlook. This was despite the jump in consumer inflation to 4.4% y/y in April and 5.2% y/y in May, attributed largely to the previous low base. The central bank raised its growth forecasts for 2021 from 3.8% to 4.2%, but lowered its projections for 2022 and 2023 to 2.3% and 2.4% respectively. It is also projecting two 25bps interest rate hikes in 2021.

During the quarter global credit rating agencies S&P and Fitch reaffirmed South Africa's long-term sovereign credit rating at BB-, citing an upturn in near-term economic performance and improved public finances as contributing factors. Moody's, however, postponed its review on South Africa's credit rating, which currently sits at Ba2 with a negative outlook.

SA bonds posted a strong 6.9% return (as measured by the FTSE/JSE All Bond Index), remaining sought-after sources of yield for global investors compared to many other sovereign bonds. The yield curve between 10-year and 20-year bonds also flattened by 34bps, with the spread now down at 120bps from its peak of 216bps during the Coronavirus crisis in May 2020 and highlighting lower investor risk perceptions. Meanwhile, SA inflation-linked bonds produced 3.0% (Composite ILB Index) on the back of somewhat softer demand for inflation protection, and cash (STeFI Composite) delivered 0.9%.

Treasury Bills (T-bills) continued to trade higher than Bank Negotiable Certificate of Deposits (NCDs). Most notably, as month-end and quarter-end T-Bill participation diminished, T-Bill rates traded higher. Fixed rate NCDs increased in yield over the last quarter, particularly in the six- and twelve-month space, in keeping with interest rate expectations.

PERFORMANCE

For the second quarter of 2021, the fund delivered a return of 0.9% (net), marginally outperforming its benchmark, the STeFI Call Deposit Index, by 0.1%. For the 12 months ended 30 June 2021, the fund returned 3.7% (net of fees), outperforming its benchmark by 0.2% over the same period.

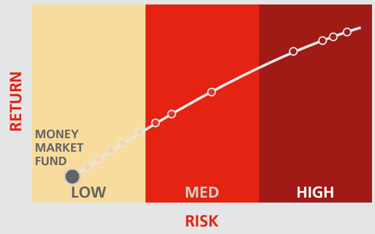
The average duration of the fund at quarter end was 78 days relative to the 90-day maximum average duration. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS
1 year	3.7%	3.5%	3.8%
3 years	6.0%	5.4%	6.1%
5 years	6.6%	6.0%	6.7%
7 years	6.5%	6.0%	6.6%
10 years	6.1%	5.7%	6.2%
Since inception	7.5%	7.3%	6.2%

Inception date X Class: 1 April 2011

INCOME

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Sandile Malinga

ASISA CATEGORY:
South African - Interest Bearing - Money Market

BENCHMARK:
STeFI Call Deposit Index

INCEPTION DATE:
9 April 2002

FUND SIZE:
R1 312 244 572

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH INTEREST FUND
30 JUNE 2021

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

Economic growth surprised to the upside in South Africa as Q1 2021 GDP growth measured 4.6% q/q annualised, notably higher than the 2.5% market forecast. Despite the gradual recovery, Stats SA noted that the economy's absolute size was equivalent to that last seen in Q1 2016, five years earlier. Covid-19 vaccine supplies continued to make their way into the country and the government's vaccination programme made headway, but this progress was overshadowed in June as the third wave of Covid infections gathered pace, driven by the more transmissible Delta variant. This prompted President Cyril Ramaphosa to reintroduce Level 2, and subsequently Level 4, lockdown measures, again curtailing vital economic and social activity.

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PERFORMANCE

For the second quarter of 2021, the fund delivered a return of 1.1% (net), marginally outperforming its benchmark, the STeFI Composite Index, by 0.1%. For the 12 months ended 30 June 2021, the fund returned 3.8% (net of fees), while its benchmark delivered 4.0% over the same period.

The Prudential High Interest Fund was launched in December 2010 with the aim of delivering returns in excess of money market yields without compromising the stability of the capital. Although capital protection is not guaranteed, we highlight the low-risk nature of the portfolio and hence the remote prospect for capital loss over periods exceeding a few days.

The maximum term of instruments is limited to three years compared to money market funds at 13 months. The fund also has a maximum weighted average duration of 180 days as opposed to a typical money market fund targeting a maximum 90-day weighted average duration.

Relative to the 180-day maximum average duration, the quarter-end duration of the fund came in at 156 days.

STRATEGY AND POSITIONING

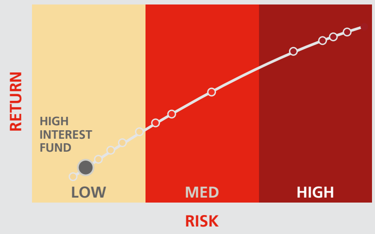
The second quarter saw the return of issuers to the primary bond market after a traditionally quiet first quarter. Issuance volume (excluding government issuances) was R37.5bn, significantly higher than both the previous quarter (R16.5bn) and the corresponding second quarter of 2020 (also R16.5bn). The make-up of issuance for the quarter followed established trends, with the majority being floating rate notes while banks were the largest sector for issuance. We continue to see meaningful volume via private placements, although not to the same extent as was the case in 2020. Issuance activity has for a period been dominated by floating rate placements/ auctions rather than fixed rate issuance. The return of issuers to the market, together with somewhat uncertain market conditions, may provide some opportunities to add to our credit holdings at attractive prices. The window of opportunity to accumulate cheap credit may be closing, though, as credit spreads have for the most part been trending lower, towards pre-pandemic levels.

We continue to look for opportunities that will enhance the return to investors without compromising the stability of their capital. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS	D CLASS
1 year	3.8%	4.0%	4.0%	4.1%
3 years	5.9%	6.0%	6.0%	6.1%
5 years	6.8%	6.6%	6.9%	7.1%
7 years	6.7%	6.6%	6.9%	7.0%
10 years	6.4%	6.3%	6.5%	6.7%

Inception dates X Class: 1 April 2011, D Class: 9 December 2010

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Sandile Malinga

ASISA CATEGORY:
South African - Interest Bearing - Short Term

BENCHMARK:
STeFI Composite Index measured over a rolling 12-month period

INCEPTION DATE:
8 December 2010

FUND SIZE:
R8 494 340 815

PLEASE NOTE:
This fund is capped to new investors

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INCOME FUND
30 JUNE 2021

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

Economic growth surprised to the upside in South Africa as Q1 2021 GDP growth measured 4.6% q/q annualised, notably higher than the 2.5% market forecast. Despite the gradual recovery, Stats SA noted that the economy's absolute size was equivalent to that last seen in Q1 2016, five years earlier. Covid-19 vaccine supplies continued to make their way into the country and the government's vaccination programme made headway, but this progress was overshadowed in June as the third wave of Covid infections gathered pace, driven by the more transmissible Delta variant. This prompted President Cyril Ramaphosa to reintroduce Level 2, and subsequently Level 4, lockdown measures, again curtailing vital economic and social activity.

Meanwhile, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5% at its 20 May MPC meeting, warning that slow progress on vaccinations, limited energy supply and policy uncertainty continue to pose downside risks to the economic outlook. This was despite the jump in consumer inflation to 4.4% y/y in April and 5.2% y/y in May, attributed largely to the previous low base. The central bank raised its growth forecasts for 2021 from 3.8% to 4.2%, but lowered its projections for 2022 and 2023 to 2.3% and 2.4% respectively. It is also projecting two 25bps interest rate hikes in 2021.

During the quarter global credit rating agencies S&P and Fitch reaffirmed South Africa's long-term sovereign credit rating at BB-, citing an upturn in near-term economic performance and improved public finances as contributing factors. Moody's, however, postponed its review on South Africa's credit rating, which currently sits at Ba2 with a negative outlook.

SA bonds posted a strong 6.9% return (as measured by the FTSE/JSE All Bond Index), remaining sought-after sources of yield for global investors compared to many other sovereign bonds. The yield curve between 10-year and 20-year bonds also flattened by 34bps, with the spread now down at 120bps from its peak of 216bps during the Coronavirus crisis in May 2020 and highlighting lower investor risk perceptions. Meanwhile, SA inflation-linked bonds produced 3.0% (Composite ILB Index) on the back of somewhat softer demand for inflation protection, and cash (STeFI Composite) delivered 0.9%.

PERFORMANCE

For the second quarter of 2021, the fund delivered a return of 1.2% (net), outperforming its benchmark, the STeFI Composite Index by 0.3%. For the 12 months ended 30 June 2021, the fund returned 6.7% (net of fees), outperforming its benchmark by 2.7% over the same period.

The Prudential Income Fund was launched in December 2016 with the aim of delivering returns in excess of money market yields by investing in longer dated liquid paper - without compromising the stability of the capital. Although capital protection is not guaranteed as the fund is exposed to spread risk, we highlight the low sensitivity to interest rate changes on the back of a low duration position.

The maximum term of instruments is not limited compared to money market funds at 13 months. The fund also has a maximum weighted average duration of 2 years as opposed to a typical money market fund targeting a maximum 90 days weighted average duration.

The quarter-end average duration of the fund came in at 166 days.

STRATEGY AND POSITIONING

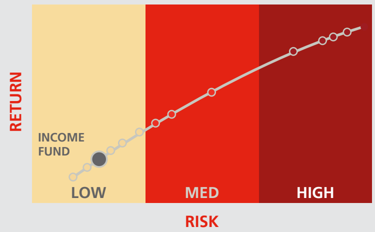
The second quarter saw the return of issuers to the primary bond market after a traditionally quiet first quarter. Issuance volume (excluding government issuances) was R37.5bn, significantly higher than both the previous quarter (R16.5bn) and the corresponding second quarter of 2020 (also R16.5bn). The make-up of issuance for the quarter followed established trends, with the majority being floating-rate notes, while banks were the largest sector for issuance. We continue to see meaningful volume via private placements, although not to the same extent as was the case in 2020. Issuance activity has for a period been dominated by floating-rate placements/auctions rather than fixed rate issuance. The return of issuers to the market, together with somewhat uncertain market conditions, may provide some opportunities to add to our credit holdings at attractive prices. The window of opportunity to accumulate cheap credit may be closing though, as credit spreads have for the most part been trending lower, towards pre-pandemic levels.

We continue to look for opportunities that will enhance the return to investors without compromising the stability of their capital. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	D CLASS
1 year	6.7%	4.0%	6.8%
2 years	5.8%	5.4%	5.9%
3 years	6.7%	6.0%	6.9%
Since inception	7.4%	6.5%	7.5%

Inception dates: D Class: 6 December 2016

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Sandile Malinga

ASISA CATEGORY:
South African - Interest Bearing - Short Term

BENCHMARK:
STeFI Composite Index measured over a rolling 12-month period

INCEPTION DATE:
6 December 2016

FUND SIZE:
R863 270 450

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH YIELD BOND FUND
30 JUNE 2021

QUARTERLY COMMENTARY

MARKET OVERVIEW

Economic growth surprised to the upside in South Africa as Q1 2021 GDP growth measured 4.6% q/q annualised, notably higher than the 2.5% market forecast. Despite the gradual recovery, Stats SA noted that the economy's absolute size was equivalent to that last seen in Q1 2016, five years earlier. Covid-19 vaccine supplies continued to make their way into the country and the government's vaccination programme made headway, but this progress was overshadowed in June as the third wave of Covid infections gathered pace, driven by the more transmissible Delta variant. This prompted President Cyril Ramaphosa to reintroduce Level 2, and subsequently Level 4, lockdown measures, again curtailing vital economic and social activity.

Meanwhile, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5% at its 20 May MPC meeting, warning that slow progress on vaccinations, limited energy supply and policy uncertainty continue to pose downside risks to the economic outlook. This was despite the jump in consumer inflation to 4.4% y/y in April and 5.2% y/y in May, attributed largely to the previous low base. The central bank raised its growth forecasts for 2021 from 3.8% to 4.2%, but lowered its projections for 2022 and 2023 to 2.3% and 2.4% respectively. It is also projecting two 25bps interest rate hikes in 2021.

During the quarter global credit rating agencies S&P and Fitch reaffirmed South Africa's long-term sovereign credit rating at BB-, citing an upturn in near-term economic performance and improved public finances as contributing factors. Moody's, however, postponed its review on South Africa's credit rating, which currently sits at Ba2 with a negative outlook.

The second quarter saw the return of issuers to the primary bond market after a traditionally quiet first quarter. Issuance volume (excluding government issuances) was R37.5bn, significantly higher than both the previous quarter (R16.5bn) and the corresponding second quarter of 2020 (also R16.5bn). The make-up of issuance for the quarter followed established trends, with the majority being floating rate notes while banks were the largest sector for issuance. We continue to see meaningful volume via private placements, although not to the same extent as was the case in 2020. Issuance activity has for a period been dominated by floating rate placements/auctions rather than fixed rate issuance. The return of issuers to the market, together with somewhat uncertain market conditions, may provide some opportunities to add to our credit holdings at attractive prices. The window of opportunity to accumulate cheap credit may be closing though, as credit spreads have for the most part been trending lower, towards pre-pandemic levels. The largest issuer in Q2 was FirstRand Bank which raised just under R6.1bn. In April the bank raised just under R3.1bn of subordinated debt – the auction attracting R7bn worth of bids. Then, in June, a further R3bn of senior debt was issued – attracting R6.7bn in bids.

The rally in bond yields was supported in early May by National Treasury announcing a R900m reduction in weekly nominal bond issuance volumes, to R3.9bn per week. This decision was driven by a lower national borrowing requirement and higher cash balances.

SA bonds posted a strong 6.9% return (as measured by the FTSE/JSE All Bond Index), remaining sought-after sources of yield for global investors compared to many other sovereign bonds. The yield curve between 10-year and 20-year bonds also flattened by 34bps, with the spread now down at 120bps from its peak of 216bps during the Coronavirus crisis in May 2020 and highlighting lower investor risk perceptions. Meanwhile, SA inflation-linked bonds produced 3.0% (Composite ILB Index) on the back of somewhat softer demand for inflation protection, and cash (STeFI Composite) delivered 0.9%.

PERFORMANCE

For the second quarter of 2021, the fund delivered a return of 7.8% (net), outperforming its benchmark, the FTSE/JSE All Bond Index by 0.9%. For the 12 months ended 30 June 2021, the fund returned 14.8% (net of fees), outperforming its benchmark by 1.1% over the same period.

STRATEGY AND POSITIONING

We began the quarter in a long-duration position, with our overweight position focussed on the part of the curve exceeding 20 years. As described above, long-dated bond yields rallied more than shorter-dated bonds over the quarter, causing the yield curve to flatten. The flattening of the yield curve favoured our overweight position in longer-dated bonds and helped the fund outperform its benchmark.

Following the outperformance of the long-end of the curve during the quarter, we reduced our exposure to longer-dated bonds exceeding 20 years and invested the proceeds into bonds with 7- to 12-year maturities. This resulted in a closing of the fund's overweight duration position in the 20-year-plus area and reduced our underweight position in 7- to 2-year maturity bonds. Overall, the fund's duration was reduced slightly (-0.15 years) as a result of the trades.

We have a positive view on the 12- to 20-year area of the bond curve relative to the 20-year plus area. In our view, investors are not being sufficiently compensated for holding long-dated bonds maturing beyond 20 years' time – with the spread differential between the 30-year and 20-year tenors being zero.

As of 30 June, 10-year government bonds yields were still somewhat elevated compared to their history, offering around 9.25% versus 9.5% at the start of the quarter, and equating to an after-inflation (real) yield of around 4.25% (assuming inflation of 5.0% over the next decade). This is substantially above our long-run fair value assumption of a 2.5% real yield. We believe these yields more than compensate investors for the risks associated with holding SA government debt.

There was little opportunity to add to the fund's credit exposure during the quarter due to continuing limited fixed-rate issuance. Issuance activity has for a period been dominated by floating-rate placements/auctions rather than fixed-rate issuance. We continue to have capacity to add to our fixed-rate credit holdings within the fund.

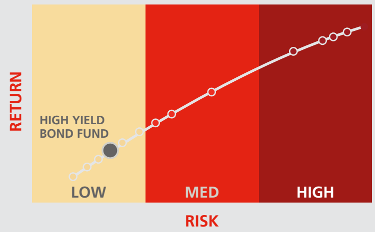
The return of issuers to the market, together with somewhat uncertain market conditions, may provide some opportunities to add to our credit holdings at attractive prices. The window of opportunity to accumulate cheap credit may be closing, though, as credit spreads have for the most part been trending lower, towards pre-pandemic levels. The continued weighting of issuance towards floating-rate instruments, rather than fixed rate, will also be a hinderance. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	14.8%	13.7%	15.0%
3 years	8.0%	9.2%	8.1%
5 years	8.2%	9.2%	8.5%
7 years	7.4%	8.5%	7.7%
10 years	7.8%	8.5%	8.1%
Since inception	9.8%	10.2%	8.9%

Inception date B Class: 1 April 2003

INCOME

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Gareth Bern

ASISA CATEGORY:
South African - Interest Bearing - Variable Term

BENCHMARK:
FTSE/JSE ALL BOND INDEX

INCEPTION DATE:
27 October 2000

FUND SIZE:
R284 700 504

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED INCOME FUND
30 JUNE 2021

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

During the second quarter (Q2) of 2021, more progress in vaccine rollouts worldwide, as well as positive corporate earnings reports and economic news, continued to lift equity returns, particularly in developed markets, even as concerns emerged over high valuations. Bonds – both government and corporate credit – also recorded solid performances, retracing some of their Q1 losses and buoyed by reassurances from central banks that easy monetary policies would not be halted any time soon. It was no coincidence that cheaper, out-of-favour equities like Listed Property were among the strongest performers, while more expensive sectors like Resources underperformed.

Meanwhile, the approval of even more US government spending helped support the global growth outlook, as did improving conditions in the UK and Europe. However, emerging market equities lagged those of developed markets, and South African equities broadly underperformed their EM peers due largely to the market's high Resources exposure, after outperforming in Q1.

In the US, the economy gathered speed as Q1 GDP growth was recorded at a final 6.4% (q/q annualised) and Q1 consumer spending jumped 11.1% y/y, amid a ramp-up in factory production and signs of labour shortages in some areas. Bullish sentiment was further stoked by the bipartisan approval of a five-year, US$1.2trn infrastructure spending plan. At its June policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, easing investor concerns over rising inflation, while also signalling two 0.25% interest rate hikes by the end of 2023. Longer-dated US Treasuries rallied on the accommodative stance, helping flatten the UST yield curve after its steepening trend in previous quarters. This was despite headline consumer inflation of 5.0% y/y in May, its highest rate in nearly 13 years, which policymakers consider to be temporary.

Spurred by the improving growth outlook, US equity markets continued to rally for the quarter (although June gains were more subdued), with the S&P 500 delivering an 8.5% return, the Dow Jones Industrial 30 5.1%, and the technology-heavy Nasdaq 100 11.4% (all in US$).

In the UK, the rapid spread of the Covid-19 Delta variant, in the face of the country's successful implementation of its vaccination programme, proved to be a setback for the economy's anticipated full reopening in June, dampening market sentiment to some extent. The latest GDP figures proved equally bleak as the economy shrank by 6.1% y/y in Q1 2021. Despite this, the Bank of England upgraded its growth forecast for the year to 7.25% from 5% in February, and left its key interest rate unchanged as expected, while warning against any "premature tightening" until it reached its GDP growth and inflation goals.

In the EU, Q1 GDP contracted by 1.7% y/y, disappointing most analysts on the back of slower-than-expected vaccine programme rollouts and the emergence of more contagious virus variants which forced extended lockdown measures. On the other hand, later in the quarter, consumer and business sentiment recorded strong rebounds, albeit not yet reaching pre-Covid levels.

Meanwhile, the European Central Bank (ECB) left interest rates on hold at its June policy meeting, with President Christine Lagarde injecting some bullish sentiment by emphasizing that growth in the region should pick up amid stronger global growth and consumer spending, and that the central bank would continue its bond purchases and other supportive monetary measures. Unlike the US Fed, she refrained from signalling when the ECB might start to ease its accommodative policy. Consumer inflation in the EU rose to 2.3% y/y in May, due largely to a low annual base effect.

For the quarter, French equities far outperformed their regional counterparts as the CAC 40 delivered 10.1%, the UK's FTSE 100 5.8%, and the German DAX 4.4% (all in US$).

Japan's economic contraction for Q1 2021 was revised to -3.9% y/y from a previously estimated -5.1% y/y, above market expectations of -4.8% y/y. However, further restrictions to economic activity due to the worsening spread of the Coronavirus, particularly in the Tokyo region, have led many to expect Q2 growth to be weaker, and again in negative territory. The Bank of Japan left its key short-term interest rate unchanged at -0.1% in June, and also extended the deadline for its pandemic-relief programme from September 2021 to March 2022. In a further move to boost growth, policymakers unveiled a new scheme to provide funds to financial institutions that invest or extend loans related to climate change issues. Japan's CPI hovered around 0%, higher than previous deflation due to the rise in global oil prices, although inflation expectations were unchanged.

In China, GDP growth slowed to 0.6% q/q in Q1 2021 from 3.2% the previous quarter. The People's Bank of China again left its lending rates on hold in June, while noting in its Q1 monetary report that it was more worried about an uneven economic recovery, weak consumer spending and lack of private business investment than rising prices. The government continued its crackdown on the large local IT and fintech companies, introducing more regulations regarding financing and microlending in a bid to curb "monopolistic" practices online.

For the second quarter of 2021, Japan's Nikkei 225 returned -1.6%, the MSCI China produced 2.3% and Hong Kong's Hang Seng delivered 2.9% (all in US$).

Among other large emerging equity markets, in US$ terms Brazil's Bovespa was by far the best performer with a 22.3% return, rebounding from a disastrous Q1, while the MSCI Russia delivered 14.4%. The MSCI India posted a respectable 7.0% and South Korea's KOSPI 6.3%, but the MSCI South Africa and MSCI Turkey both ended in the red with -1.3% and -0.2%, respectively, all in US$.

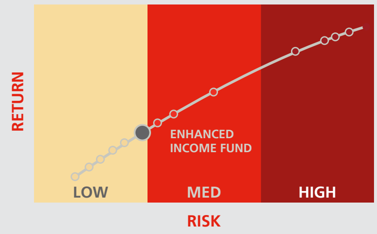
After gaining over 22% in the first quarter of 2021, the spot price of Brent crude oil rose another 18.2% in Q2, for an increase of 45% so far in 2021, fuelling inflation around the globe. As for commodity prices, most were higher over the quarter with the exception of platinum, which lost 7.4%. The gold price gained 4.5% for the quarter, and palladium was up 3.5%, giving it a 40% gain over the past 12 months. Industrial metals were also stronger: nickel rose 14.6%, aluminium 11% and copper 6%.

Turning to South Africa, economic growth surprised to the upside as Q1 2021 GDP growth measured 4.6% q/q annualised, notably higher than the 2.5% market forecast. Despite the gradual recovery, Stats SA noted that the economy's absolute size was equivalent to that last seen in Q1 2016, five years earlier. Covid-19 vaccine supplies continued to make their way into the country and the government's vaccination programme made headway, but this progress was overshadowed in June as the third wave of Covid infections gathered pace, driven by the more transmissible Delta variant. This prompted President Cyril Ramaphosa to reintroduce Level 2, and subsequently Level 4, lockdown measures, again curtailing vital economic and social activity.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	D CLASS
1 year	7.5%	4.0%	7.7%	7.4%	7.8%
3 years	5.4%	6.0%	5.7%	5.4%	5.8%
5 years	6.1%	6.6%	6.5%	6.3%	6.6%
7 years	6.4%	6.7%	n/a	6.6%	7.0%
10 years	7.1%	6.8%	n/a	7.3%	n/a
Since inception	7.6%	7.0%	6.6%	7.3%	7.6%

Inception dates: X Class: 1 April 2011, D Class: 1 July 2011, T Class: 2 January 2015

RISK/RETURN PROFILE:



FUND MANAGERS:
David Knee and Roshen Harry

ASISA CATEGORY:
South African - Multi-Asset - Income

BENCHMARK:
STeFI Composite Index measured over a rolling 36-month period

INCEPTION DATE:
1 July 2009

FUND SIZE:
R852 246 067

Sources: Prudential, Morningstar & Deutsche Securities

Meanwhile, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5% at its 20 May MPC meeting, warning that slow progress on vaccinations, limited energy supply and policy uncertainty continue to pose downside risks to the economic outlook. This was despite the jump in consumer inflation to 4.4% y/y in April and 5.2% y/y in May, attributed largely to the previous low base. The central bank raised its growth forecasts for 2021 from 3.8% to 4.2%, but lowered its projections for 2022 and 2023 to 2.3% and 2.4% respectively. It is also projecting two 25bps interest rate hikes in 2021.

During the quarter global credit rating agencies S&P and Fitch reaffirmed South Africa's long-term sovereign credit rating at BB-, citing an upturn in near-term economic performance and improved public finances as contributing factors. Moody's, however, postponed its review on South Africa's credit rating, which currently sits at Ba2 with a negative outlook.

The FTSE/JSE ALSI was roughly flat for the second quarter, returning 0.05%, while the FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned 0.6%.The standout sector was Listed Property (the All Property Index) with an 11.1% total return. Financials delivered 7.5% and Industrials eked out 0.8%, but the Resources Index returned -5.0%. This performance reflected the value still seen in "SA Inc" counters, which have lagged during the recovery, and the growing view that Resources shares may be reaching the end of their bull run.

Finally, the rand appreciated against the major global currencies over the quarter, rising strongly from its oversold position in April and May before retracing some gains in June. It gained 3.3% against the US dollar, 3.1% versus the pound sterling and 2.4% against the euro over the three months.

PERFORMANCE

The fund delivered a return of 2.8% (net of fees) for the second quarter of 2021, outperforming its benchmark (the STeFI Composite Index) by 1.9%. For the year ended 30 June 2021, the fund returned 7.5% (net of fees), outperforming its benchmark by 3.5%.

For the quarter, investments in floating-rate instruments, fixed-rate bonds, inflation-linked bonds, SA property and international assets (hedged back into rand), contributed positively to overall fund returns.

STRATEGY AND POSITIONING

In the second quarter of 2021 we made a few changes to the **offshore allocation** of the fund. We purchased US dollar-denominated SA government bonds which we hedged back into rand using currency futures. These purchases were funded from the sale of SA government bonds. We maintained our exposure to **US high yield corporate bonds** while selling our holdings of US dollar-denominated **Growthpoint bonds**.

We reduced our positioning in **SA listed property**, which has been the best-performing sector (and asset class) so far this year, recording a 20.1% return over the six months to the end of June 2021. Earnings have been broadly flat, and our modest positioning therefore reflects our belief that risks around property company earnings remain high, combined with the continuing relatively high debt levels in the sector. We have ensured that we are holding high-quality companies with strong balance sheets within our small exposure to the sector.

SA nominal bonds enjoyed strong returns in the second quarter, and the fund benefitted from this exposure. We continue to be constructive on this asset class and the fund's exposure is tilted towards shorter-dated maturities, which we believe offer attractive medium-term returns compared to cash.

We maintained our exposure to **inflation-linked bonds (ILBs)** during the quarter even though the gap between ILBs and cash real yields narrowed on the back of the rally in ILBs (as the 10-year ILB rallied by 80bps), while cash real yields remained steady. ILB real yields are still attractive compared to their own history and our long-run fair value assumption of 2.5%, hence we are constructive on this asset class. Relative to cash, we believe the medium-term return outcome for ILBs will be superior.

Lastly, we believe that **SA cash** offers poor prospective real returns and have therefore allocated capital to more attractive asset classes, as mentioned above. ■

Sources: Prudential, Morningstar & Deutsche Securities

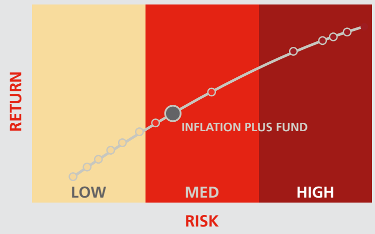
PRUDENTIAL INFLATION PLUS FUND
30 JUNE 2021

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

RISK/RETURN PROFILE:



FUND MANAGERS:
David Knee, Michael Moyle, Sandile Malinga and Leonard Krüger

ASISA CATEGORY:
South African - Multi-Asset - Low Equity

OBJECTIVE (BEFORE FEES):
CPI+5% p.a. over a rolling 3-year period

INCEPTION DATE:
1 June 2001

FUND SIZE:
R20 511 793 449

AWARDS:
Raging Bull: 2013
Morningstar: 2015

MARKET OVERVIEW

During the second quarter (Q2) of 2021, more progress in vaccine rollouts worldwide, as well as positive corporate earnings reports and economic news, continued to lift equity returns, particularly in developed markets, even as concerns emerged over high valuations. Bonds – both government and corporate credit – also recorded solid performances, retracing some of their Q1 losses and buoyed by reassurances from central banks that easy monetary policies would not be halted any time soon. It was no coincidence that cheaper, out-of-favour equities like Listed Property were among the strongest performers, while more expensive sectors like Resources underperformed.

Meanwhile, the approval of even more US government spending helped support the global growth outlook, as did improving conditions in the UK and Europe. However, emerging market equities lagged those of developed markets, and South African equities broadly underperformed their EM peers due largely to the market's high Resources exposure, after outperforming in Q1. In contrast, South African nominal government bonds posted strong returns compared to those of many other countries over the three months.

In the US, the economy gathered speed as Q1 GDP growth was recorded at a final 6.4% (q/q annualised) and Q1 consumer spending jumped 11.1% y/y, amid a ramp-up in factory production and signs of labour shortages. Bullish sentiment was further stoked by the bipartisan approval of a five-year, US$1.2trn infrastructure spending plan.

At its June policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, easing investor concerns over rising inflation, while also signalling two 0.25% interest rate hikes by the end of 2023. Longer-dated US Treasuries rallied on the accommodative stance, helping flatten the UST yield curve after its steepening trend in previous quarters. This was despite headline consumer inflation of 5.0% y/y in May, its highest rate in nearly 13 years, which policymakers consider to be temporary.

Spurred by the improving growth outlook, US equity markets continued to rally for the quarter (although June gains were more subdued), with the S&P 500 delivering an 8.5% return, the Dow Jones Industrial 30 5.1%, and the technology-heavy Nasdaq 100 11.4% (all in US$).

In the UK, the rapid spread of the Covid-19 Delta variant, in the face of the country's successful implementation of its vaccination programme, proved to be a setback for the economy's anticipated full reopening in June, dampening market sentiment to some extent. The latest GDP figures proved equally bleak as the economy shrank by 6.1% y/y in Q1 2021. In the EU, Q1 GDP contracted by 1.7% y/y, while the European Central Bank (ECB) left interest rates on hold at its June policy meeting. Consumer inflation in the EU rose to 2.3% y/y in May, due largely to a low annual base effect. For the quarter, French equities far outperformed their regional counterparts as the CAC 40 delivered 10.1%, the UK's FTSE 100 5.8%, and the German DAX 4.4% (all in US$).

Japan's economic contraction for Q1 2021 was revised to -3.9% y/y from a previously estimated -5.1% y/y, above market expectations of -4.8% y/y. However, further restrictions to economic activity due to the worsening spread of the Coronavirus, particularly in the Tokyo region, have led many to expect Q2 growth to be weaker. The Bank of Japan left its key short-term interest rate unchanged at -0.1% in June, and also extended the deadline for its pandemic-relief programme from September 2021 to March 2022.

In China, GDP growth slowed to 0.6% q/q in Q1 2021 from 3.2% the previous quarter. The People's Bank of China again left its lending rates on hold in June, while noting in its Q1 monetary report that it was more worried about an uneven economic recovery, weak consumer spending and lack of private business investment than rising prices. For the second quarter of 2021, Japan's Nikkei 225 returned -1.6%, the MSCI China produced 2.3% and Hong Kong's Hang Seng delivered 2.9% (all in US$).

Among other large emerging equity markets, in US$ terms Brazil's Bovespa was by far the best performer with a 22.3% return, rebounding from a disastrous Q1, while the MSCI Russia delivered 14.4%. The MSCI India posted a respectable 7.0% and South Korea's KOSPI 6.3%, but the MSCI South Africa and MSCI Turkey both ended in the red with -1.3% and -0.2%, respectively, all in US$.

After gaining over 22% in the first quarter of 2021, the spot price of Brent crude oil rose another 18.2% in Q2, for an increase of 45% so far in 2021, fuelling inflation around the globe. As for commodity prices, most were higher over the quarter with the exception of platinum, which lost 7.4%. The gold price gained 4.5% for the quarter, and palladium was up 3.5%, giving it a 40% gain over the past 12 months. Industrial metals were also stronger: nickel rose 14.6%, aluminium 11% and copper 6%.

South Africa

Economic growth surprised to the upside in South Africa as Q1 2021 GDP growth measured 4.6% q/q annualised, notably higher than the 2.5% market forecast. Covid-19 vaccine supplies continued to make their way into the country and the government's vaccination programme made headway, but this progress was overshadowed in June as President Cyril Ramaphosa was forced to reintroduce Level 4 lockdown measures in the face of the spreading third wave of Covid infections.

Meanwhile, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5% at its 20 May MPC meeting, warning that slow progress on vaccinations, limited energy supply and policy uncertainty continued to pose downside risks to the economic outlook. This was despite the jump in consumer inflation to 4.4% y/y in April and 5.2% y/y in May, attributed largely to the previous low base. The central bank raised its growth forecasts for 2021 from 3.8% to 4.2%, but lowered its projections for 2022 and 2023 to 2.3% and 2.4% respectively. It is also projecting two 25bps interest rate hikes in 2021.

The FTSE/JSE ALSI was roughly flat for the second quarter, returning 0.05%, while the FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned 0.6%.The standout sector was Listed Property (the All Property Index) with an 11.1% total return. Financials delivered 7.5% and Industrials eked out 0.8%, but the Resources Index returned -5.0%. This performance reflected the value still seen in "SA Inc" counters, which have lagged during the recovery, and the growing view that Resources shares may be reaching the end of their bull run.

ANNUALISED PERFORMANCE	A CLASS	OBJECTIVE#	T CLASS	X CLASS	B CLASS
1 year	15.3%	8.6%	15.6%	15.3%	15.8%
3 years	3.6%	7.3%	4.0%	3.8%	4.3%
5 years	3.8%	7.7%	4.2%	4.0%	4.5%
7 years	5.2%	8.0%	n/a	5.4%	5.9%
10 years	8.4%	8.4%	n/a	n/a	9.1%
Since inception	11.0%	9.2%	4.9%	8.7%	11.2%

Objective (After A Class Fees) over a rolling 3-year period.
Fee adjustment to gross Fund Objective for different classes: A class -1.6%, T class -1%, X class -1.4%, B class -0.9%
Inception dates: X Class: 1 July 2011, B Class: 1 July 2002, T Class: 2 January 2015

Sources: Prudential, Morningstar & Deutsche Securities

SA bonds posted a strong 6.9% return (as measured by the FTSE/JSE All Bond Index), remaining sought-after sources of yield for global investors compared to many other sovereign bonds. SA inflation-linked bonds produced 3.0% (Composite ILB Index) on the back of somewhat softer demand for inflation protection, and cash (STeFI Composite) delivered 0.9%.

Finally, the rand appreciated against the major global currencies over the quarter, rising strongly from its oversold position in April and May before retracing some gains in June. It gained 3.3% against the US dollar, 3.1% versus the pound sterling and 2.4% against the euro over the three months.

PERFORMANCE

The fund returned 3.4% (after fees) for the first quarter of 2021 and 15.3% for the 12-month period ending 30 June 2021. The fund has delivered a return of 11.0% per annum since its inception in 2001 (after fees), compared to its objective of 9.2% per annum over the same period.

The largest asset-class contributors to absolute performance for the quarter were the fund's exposure to SA nominal bonds (by far), followed by SA ILBs and SA listed property. Global equities also added value, as did SA equities (to a lesser extent).

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in diverse stocks like MTN, Truworths and PPC, as well as financial counters like Investec, Absa, Standard Bank, Old Mutual and Remgro. Naspers was by far the largest equity detractor from absolute returns, while Resources holdings like Implats and Amplats also weighed on performance.

STRATEGY AND POSITIONING

Starting with our view on **offshore asset allocation**, we reduced our equity exposure slightly in favour of bonds in light of strong equity performance over the quarter, as global equities became even more expensive. Within our global equity positioning, as US equities continued to be expensive compared to other markets, the fund kept its underweight positioning in the US market in favour of selected European and emerging market equities. We have been aiming to position our portfolios with higher weightings of very high-returning global assets while maintaining a mix of assets that have diversified return profiles. At quarter-end we were overweight emerging market equities and underweight developed market equities.

The Inflation Plus Fund has underweight exposure to **global government bonds** and we remained underweight in **investment grade corporate credit** given our view that yields are no longer sufficiently high for the risk, with our aggregate global bond exposure continuing to be underweight in total at quarter-end.

We were still overweight **SA equities** in Q2. SA equity valuations (as measured by the forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) became somewhat more attractive over the quarter, moving from around 9.7X at the beginning of the quarter to around 9.2X at quarter-end as equity prices moved sideways but earnings expectations rose. This improvement in valuations was insufficient to cause us to change our allocation to SA equity as competing assets also remained attractive.

Within SA equities, in broad terms our exposure to large global companies (in particular Resources groups and Naspers) did not work in our favour over the quarter due to rand appreciation and underperformance from some of these shares. However, our continued overweight to financial stocks added to portfolio value with contributions from Investec, Absa, Standard Bank, Remgro and Old Mutual as notable performers. Other good returns came from our exposure to retailers like Foschini and Truworths, as well as MTN, Richemont and PPC. A large detractor to performance over the period was our holding in Naspers, which was under threat from Chinese regulators and garnered negative investor sentiment regarding its proposed share exchange with associate company Prosus. Our basic resources holdings such as Amplats and Anglo American also detracted from value.

We have maintained our positioning in **SA listed property** in Q2 2021. Listed property has been the best-performing sector (and asset class) so far this year, recording a 20.1% return over the six months to end-June, but earnings have been broadly flat and the sector's forward earnings yield has fallen from 11.5% to 10.25% due to price appreciation. In our view, although it is encouraging that earnings have not deteriorated further and we may be reaching the end of the downward trend with the current earnings stabilisation, it is still too early to call. Our positioning therefore reflects our belief that risks around property company earnings remain high, combined with the continuing relatively high debt levels in the sector. We have ensured that we are holding high-quality companies with strong balance sheets within our small exposure to the sector, like Growthpoint.

SA nominal bonds enjoyed strong returns in Q2, and the fund benefitted from its overweight exposure to these assets. During the quarter we moved further overweight, switching out of some of our exposure to SA inflation-linked bonds which had outperformed over the period, rendering nominal bonds relatively more attractive. We also remained tilted towards longer-dated maturities, which returned more than their shorter-dated counterparts over the three months (12+-year maturities returned 10.1% in Q2 vs the All Bond Index's 6.9% return). With the yield on the R209 15-year bond ending June at 10.1%, for example, these securities remain attractive relative to other income assets and their own longer-term history. We believe they will more than compensate investors for their associated risks.

We reduced the fund's exposure to **SA inflation-linked bonds (ILBs)** during the quarter and switched this into SA nominal bonds, selling approximately 4% of our position following the relative outperformance of ILBs so far in 2021. Over the January – May period the nominal 10-year bond sold off by 20bps, while the 10-year ILB rallied by 80bps, resulting in a 100bp outperformance, giving nominal bonds a more attractive valuation on a relative basis. The gap between ILB and cash real yields narrowed on the back of the rally in ILBs as cash real yields were steady, but ILB real yields are still somewhat attractive compared to their own history and our long-run fair value assumption of 2.5%.

Lastly, the portfolio holds very little **SA cash**, since prospective real returns from this asset class are negative and other SA assets relatively more attractive. ■

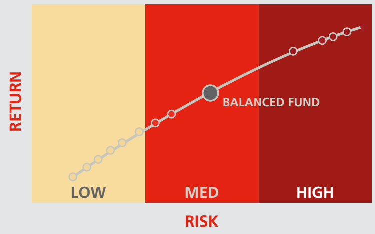
Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL BALANCED FUND
30 JUNE 2021

QUARTERLY COMMENTARY

MULTI-ASSET

RISK/RETURN PROFILE:



FUND MANAGERS:
David Knee, Michael Moyle, Sandile Malinga and Leonard Krüger

ASISA CATEGORY:
South African - Multi-Asset - High Equity

BENCHMARK:
ASISA South African - Multi-Asset - High Equity Category Average

INCEPTION DATE:
2 August 1999

FUND SIZE:
R20 956 581 535

MARKET OVERVIEW

During the second quarter (Q2) of 2021, more progress in vaccine rollouts worldwide, as well as positive corporate earnings reports and economic news, continued to lift equity returns, particularly in developed markets, even as concerns emerged over high valuations. Bonds – both government and corporate credit – also recorded solid performances, retracing some of their Q1 losses and buoyed by reassurances from central banks that easy monetary policies would not be halted any time soon. It was no coincidence that cheaper, out-of-favour equities like Listed Property were among the strongest performers, while more expensive sectors like Resources underperformed.

Meanwhile, the approval of even more US government spending helped support the global growth outlook, as did improving conditions in the UK and Europe. However, emerging market equities lagged those of developed markets, and South African equities broadly underperformed their EM peers due largely to the market's high Resources exposure, after outperforming in Q1. In contrast, South African nominal government bonds posted strong returns compared to those of many other countries over the three months.

In the US, the economy gathered speed as Q1 GDP growth was recorded at a final 6.4% (q/q annualised) and Q1 consumer spending jumped 11.1% y/y, amid a ramp-up in factory production and signs of labour shortages. Bullish sentiment was further stoked by the bipartisan approval of a five-year, US$1.2trn infrastructure spending plan.

At its June policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, easing investor concerns over rising inflation, while also signalling two 0.25% interest rate hikes by the end of 2023. Longer-dated US Treasuries rallied on the accommodative stance, helping flatten the UST yield curve after its steepening trend in previous quarters. This was despite headline consumer inflation of 5.0% y/y in May, its highest rate in nearly 13 years, which policymakers consider to be temporary.

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Among other large emerging equity markets, in US$ terms Brazil's Bovespa was by far the best performer with a 22.3% return, rebounding from a disastrous Q1, while the MSCI Russia delivered 14.4%. The MSCI India posted a respectable 7.0% and South Korea's KOSPI 6.3%, but the MSCI South Africa and MSCI Turkey both ended in the red with -1.3% and -0.2%, respectively, all in US$.

After gaining over 22% in the first quarter of 2021, the spot price of Brent crude oil rose another 18.2% in Q2, for an increase of 45% so far in 2021, fuelling inflation around the globe. As for commodity prices, most were higher over the quarter with the exception of platinum, which lost 7.4%. The gold price gained 4.5% for the quarter, and palladium was up 3.5%, giving it a 40% gain over the past 12 months. Industrial metals were also stronger: nickel rose 14.6%, aluminium 11% and copper 6%.

South Africa

Economic growth surprised to the upside in South Africa as Q1 2021 GDP growth measured 4.6% q/q annualised, notably higher than the 2.5% market forecast. Covid-19 vaccine supplies continued to make their way into the country and the government's vaccination programme made headway, but this progress was overshadowed in June as President Cyril Ramaphosa was forced to reintroduce Level 4 lockdown measures in the face of the spreading third wave of Covid infections.

Meanwhile, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5% at its 20 May MPC meeting, warning that slow progress on vaccinations, limited energy supply and policy uncertainty continued to pose downside risks to the economic outlook. This was despite the jump in consumer inflation to 4.4% y/y in April and 5.2% y/y in May, attributed largely to the previous low base. The central bank raised its growth forecasts for 2021 from 3.8% to 4.2%, but lowered its projections for 2022 and 2023 to 2.3% and 2.4% respectively. It is also projecting two 25bps interest rate hikes in 2021.

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SA bonds posted a strong 6.9% return (as measured by the FTSE/JSE All Bond Index), remaining sought-after sources of yield for global investors compared to many other sovereign bonds. SA inflation-linked bonds produced 3.0% (Composite ILB Index) on the back of somewhat softer demand for inflation protection, and cash (STeFI Composite) delivered 0.9%.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	B CLASS
1 year	20.4%	17.3%	20.6%	20.5%	20.9%
3 years	5.8%	6.8%	6.2%	6.0%	6.5%
5 years	6.4%	5.8%	6.8%	6.6%	7.1%
7 years	6.7%	5.9%	n/a	7.0%	7.5%
10 years	10.1%	8.6%	n/a	n/a	10.9%
Since inception	12.9%	11.3%	6.6%	8.9%	13.5%

Inception dates: X Class: 2 January 2013, B Class: 1 July 2002, T Class: 2 January 2015

Sources: Prudential, Morningstar & Deutsche Securities

Finally, the rand appreciated against the major global currencies over the quarter, rising strongly from its oversold position in April and May before retracing some gains in June. It gained 3.3% against the US dollar, 3.1% versus the pound sterling and 2.4% against the euro over the three months.

PERFORMANCE

The fund returned 3.1% (after fees) for the second quarter of 2021, while for the 12-month period ending 30 June 2021 its return was 20.4%. The fund has delivered a return of 12.9% per annum since its inception in 1999 (after fees), compared to its benchmark of 11.3% per annum over the same period.

The largest asset-class contributors to absolute performance for the quarter were the fund's exposure to SA nominal bonds (by far), followed by global equities and SA equities. SA listed property also contributed to a lesser extent. Global fixed income and SA ILB's only contributed marginally.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in a variety of stocks like MTN, Foschini, Investec, Richemont and PPC. Top detractors from absolute performance included Naspers, Anglo American Platinum, Impala Platinum and Anglo American.

STRATEGY AND POSITIONING

Starting with our view on **offshore asset allocation**, we remained slightly overweight global equities versus global bonds during the quarter. Within our global equity positioning, as US equities continued to be expensive compared to other markets, the fund kept its underweight positioning in the US market in favour of selected European and emerging market equities. We have been aiming to position our portfolios with higher weightings of very high-returning global assets while maintaining a mix of assets that have diversified return profiles. At quarter-end we were overweight emerging market equities and underweight developed market equities.

At the same time, the Balanced Fund has shifted to a very marginally overweight position in **global government bonds** from neutral in the previous quarter, having added small selective exposure to emerging market government bonds as yields remained particularly attractive. We remained underweight in **investment grade corporate credit** given our view that yields are no longer sufficiently high for the risk, with our aggregate global bond exposure continuing to be slightly underweight in total at quarter-end.

We were still overweight **SA equities** in Q2. SA equity valuations (as measured by the forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) became somewhat more attractive over the quarter, moving from around 9.7X at the beginning of the quarter to around 9.2X at quarter-end as equity prices moved sideways but earnings expectations rose. This improvement in valuations was insufficient to cause us to change our allocation to SA equity as competing assets also remained attractive.

Within SA equities, in broad terms our exposure to large global companies (in particular Resources groups and Naspers) did not work in our favour over the quarter due to rand appreciation and underperformance from some of these shares. However, our continued overweight to financial stocks added to portfolio value with contributions from Investec, Absa, Standard Bank, Remgro and Old Mutual as notable performers. Other good returns came from our exposure to retailers like Foschini and Truworths, as well as MTN, Richemont and PPC. A large detractor to performance over the period was our holding in Naspers, which was under threat from Chinese regulators and garnered negative investor sentiment regarding its proposed share exchange with associate company Prosus. Our basic resources holdings such as Amplats and Anglo American also detracted from value.

We have maintained our positioning in **SA listed property** in Q2 2021. Listed property has been the best-performing sector (and asset class) so far this year, recording a 20.1% return over the six months to end-June, but earnings have been broadly flat and the sector's forward earnings yield has fallen from 11.5% to 10.25% due to price appreciation. In our view, although it is encouraging that earnings have not deteriorated further and we may be reaching the end of the downward trend with the current earnings stabilisation, it is still too early to call. Our positioning therefore reflects our belief that risks around property company earnings remain high, combined with the continuing relatively high debt levels in the sector. We have ensured that we are holding high-quality companies with strong balance sheets within our small exposure to the sector, like Growthpoint.

SA nominal bonds enjoyed strong returns in Q2, and the fund benefitted from its overweight exposure to these assets. We continue to be overweight in this asset class and tilted towards longer-dated maturities, which returned more than their shorter-dated counterparts over the three months (12+-year maturities returned 10.1% in Q2 vs the All Bond Index's 6.9% return). With the yield on the R209 15-year bond ending June at 10.1%, for example, these securities remain attractive relative to other income assets and their own longer-term history. We believe they will more than compensate investors for their associated risks.

We kept our exposure to **SA inflation-linked bonds (ILBs)** during the quarter. The gap between ILB and cash real yields narrowed on the back of the rally in ILBs as the 10-year ILB rallied by 80bps, while cash real yields were steady. In addition, ILB real yields are still attractive compared to their own history and our long-run fair value assumption of 2.5%.

Lastly, the fund retained its substantial underweight in **SA cash**, since prospective real returns from this asset class are negative and other SA assets relatively more attractive. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
30 JUNE 2021

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

PROPERTY

MARKET OVERVIEW

During the second quarter (Q2) of 2021, more progress in vaccine rollouts worldwide, as well as positive corporate earnings reports and economic news, continued to lift equity returns, particularly in developed markets, even as concerns emerged over high valuations. It was no coincidence that cheaper, out-of-favour equities like Listed Property were among the strongest performers, while more expensive sectors like Resources underperformed.

Economic growth surprised to the upside in South Africa as Q1 2021 GDP growth measured 4.6% q/q annualised, notably higher than the 2.5% market forecast. Despite the gradual recovery, Stats SA noted that the economy's absolute size was equivalent to that last seen in Q1 2016, five years earlier. Covid-19 vaccine supplies continued to make their way into the country and the government's vaccination programme made headway, but this progress was overshadowed in June as the third wave of Covid infections gathered pace, driven by the more transmissible Delta variant. This prompted President Cyril Ramaphosa to reintroduce Level 2, and subsequently Level 4, lockdown measures, again curtailing vital economic and social activity.

Meanwhile, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5% at its 20 May MPC meeting, warning that slow progress on vaccinations, limited energy supply and policy uncertainty continue to pose downside risks to the economic outlook. This was despite the jump in consumer inflation to 4.4% y/y in April and 5.2% y/y in May, attributed largely to the previous low base. The central bank raised its growth forecasts for 2021 from 3.8% to 4.2%, but lowered its projections for 2022 and 2023 to 2.3% and 2.4% respectively. It is also projecting two 25bps interest rate hikes in 2021.

During the quarter global credit rating agencies S&P and Fitch reaffirmed South Africa's long-term sovereign credit rating at BB-, citing an upturn in near-term economic performance and improved public finances as contributing factors. Moody's, however, postponed its review on South Africa's credit rating, which currently sits at Ba2 with a negative outlook.

The FTSE/JSE ALSI was roughly flat for the second quarter, returning 0.05%, while the FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned 0.6%. The standout sector was Listed Property (the All Property Index) with an 11.1% total return. Financials delivered 7.5% and Industrials eked out 0.8%, but the Resources Index returned -5.0%. This performance reflected the value still seen in "SA Inc" counters, which have lagged during the recovery, and the growing view that Resources shares may be reaching the end of their bull run.

PERFORMANCE

The fund returned 12.6% (net of fees) for the second quarter of 2021, outperforming its benchmark by 0.5%. For the 12 months ending June 2021, the fund returned 25.3% compared to the benchmark which returned 25.2% over the same period, thereby ensuring the fund achieved its objective of providing a total return equal to or better than the benchmark (after fees).

Overweight positions in Dipula A and B as well as SA Corporate added to relative performance over the quarter, as did underweight positions on Fortress A and B, MAS Real Estate and EPP. Relative positioning in Hyprop, Growthpoint and Resilient detracted from relative performance for the period being measured.

STRATEGY AND POSITIONING

Investor sentiment can swing wildly from extreme pessimism to exuberance. At some point last year, some respected institutional investors in South Africa went so far as to declare the real estate sector as being "uninvestable" due to the lockdowns regulations. The mantra was that we would no longer need shopping malls and could work from home forever. While the lockdowns have no doubt resulted in some changes to habits, we have realised a few things:

- There is still a great deal of activity at shopping malls and tenants want to retain a presence there at the right price.
- Many people would like to return to working in an office, at least for part of the week.
- There is an active, albeit thin, market for assets from private buyers in South Africa and a very robust one in Europe.
- Management teams were not prepared for the downturn appropriately given high starting loan-to-value ratios followed by the subsequent need to withhold dividends and dispose of properties.

The ability of property companies to de-lever organically (via asset sales and dividends withheld, as opposed to equity raised) has no doubt surprised the market positively, as has the fact that vacancies have held somewhat steady, with the exception of the office sector.

In South Africa, we are observing stable vacancies with lower rents and ongoing rent relief to affected tenants in the retail space, with some evidence of tenant failures and downsizing in the industrial space. Unfortunately, the office market has demonstrated weak demand and little pricing power. In contrast, the self-storage segment as represented by Stor-age had an exceptionally robust year as they managed to both grow rents and also occupancy by 'letting up' space.

Cheap valuations in the property sector have attracted some interest from private buyers as well as corporate activity: Growthpoint rebuffed an offer for its stake in Globalworth; Arrowhead and Fairvest announced a likely merger; and the iGroup made a compulsory offer to minorities of Emira. Tower also announced an expression of interest from RDC Properties, based in Botswana, for its entire share capital; while RDI Reit was the subject of a successful bid from Starwood Capital.

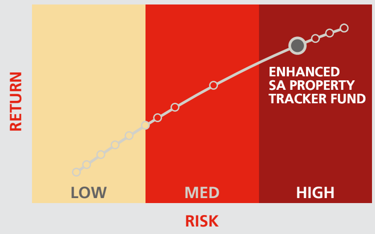
The current unrest in parts of the country will no doubt unsettle many investors in the fund. At the time of writing, we assess the immediate impact on the fund's holdings as immaterial in the short term given that landlords are fully insured for destruction and partially insured for the resulting loss of income. Further, the properties affected represent a fraction of their respective portfolios and not all tenants within affected properties were necessarily looted. The secondary effect is that small businesses may not be able to restock given underinsurance or a lack of insurance, while the resultant loss of confidence in the country and likely higher borrowing costs are the likely long-term consequences.

The SA Listed Property Index trades at an 8.4% dividend yield for the year ahead and a 10.3% distributable earnings yield, implying an 82% payout ratio for the sector. We are therefore constructive on the valuations of the sector. Coupled with amendments made to the quantitative process, this should result in excess returns accruing to holders of the fund. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	D CLASS
1 year	25.3%	25.2%	25.3%	25.5%
3 years	-10.1%	-8.9%	-10.1%	-10.0%
5 years	-7.8%	-6.9%	-7.7%	-7.7%
7 years	-0.7%	-0.2%	n/a	-0.5%
10 years	4.6%	5.1%	n/a	4.7%
Since inception	8.7%	9.1%	-5.4%	5.5%

Inception date D Class: 1 July 2010, T Class: 1 April 2015

RISK/RETURN PROFILE:



FUND MANAGERS:
Yusuf Mowlana

ASISA CATEGORY:
South African - Real Estate - General

BENCHMARK:
FTSE/JSE South African Listed Property Index (J253)

INCEPTION DATE:
2 December 2005

FUND SIZE:
R699 997 941

AWARDS:
Morningstar/Standard & Poor's: 2011

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL DIVIDEND MAXIMISER FUND
30 JUNE 2021

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

During the second quarter (Q2) of 2021, more progress in vaccine rollouts worldwide, as well as positive corporate earnings reports and economic news, continued to lift equity returns, particularly in developed markets, even as concerns emerged over high valuations. Bonds – both government and corporate credit – also recorded solid performances, retracing some of their Q1 losses and buoyed by reassurances from central banks that easy monetary policies would not be halted any time soon. It was no coincidence that cheaper, out-of-favour equities like Listed Property were among the strongest performers, while more expensive sectors like Resources underperformed.

Meanwhile, the approval of even more US government spending helped support the global growth outlook, as did improving conditions in the UK and Europe. However, emerging market equities lagged those of developed markets, and South African equities broadly underperformed their EM peers due largely to the market's high Resources exposure, after outperforming in Q1.

In the US, the economy gathered speed as Q1 GDP growth was recorded at a final 6.4% (q/q annualised) and Q1 consumer spending jumped 11.1% y/y, amid a ramp-up in factory production and signs of labour shortages in some areas. Bullish sentiment was further stoked by the bipartisan approval of a five-year, US$1.2trn infrastructure spending plan. At its June policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, easing investor concerns over rising inflation, while also signalling two 0.25% interest rate hikes by the end of 2023. Longer-dated US Treasuries rallied on the accommodative stance, helping flatten the UST yield curve after its steepening trend in previous quarters. This was despite headline consumer inflation of 5.0% y/y in May, its highest rate in nearly 13 years, which policymakers consider to be temporary.

Spurred by the improving growth outlook, US equity markets continued to rally for the quarter (although June gains were more subdued), with the S&P 500 delivering an 8.5% return, the Dow Jones Industrial 30 5.1%, and the technology-heavy Nasdaq 100 11.4% (all in US$).

In the UK, the rapid spread of the Covid-19 Delta variant, in the face of the country's successful implementation of its vaccination programme, proved to be a setback for the economy's anticipated full reopening in June, dampening market sentiment to some extent. The latest GDP figures proved equally bleak as the economy shrank by 6.1% y/y in Q1 2021. Despite this, the Bank of England upgraded its growth forecast for the year to 7.25% from 5% in February, and left its key interest rate unchanged as expected, while warning against any "premature tightening" until it reached its GDP growth and inflation goals.

In the EU, Q1 GDP contracted by 1.7% y/y, disappointing most analysts on the back of slower-than-expected vaccine programme rollouts and the emergence of more contagious virus variants which forced extended lockdown measures. On the other hand, later in the quarter, consumer and business sentiment recorded strong rebounds, albeit not yet reaching pre-Covid levels.

Meanwhile, the European Central Bank (ECB) left interest rates on hold at its June policy meeting, with President Christine Lagarde injecting some bullish sentiment by emphasizing that growth in the region should pick up amid stronger global growth and consumer spending, and that the central bank would continue its bond purchases and other supportive monetary measures. Unlike the US Fed, she refrained from signalling when the ECB might start to ease its accommodative policy. Consumer inflation in the EU rose to 2.3% y/y in May, due largely to a low annual base effect.

For the quarter, French equities far outperformed their regional counterparts as the CAC 40 delivered 10.1%, the UK's FTSE 100 5.8%, and the German DAX 4.4% (all in US$).

Japan's economic contraction for Q1 2021 was revised to -3.9% y/y from a previously estimated -5.1% y/y, above market expectations of -4.8% y/y. However, further restrictions to economic activity due to the worsening spread of the Coronavirus, particularly in the Tokyo region, have led many to expect Q2 growth to be weaker, and again in negative territory. The Bank of Japan left its key short-term interest rate unchanged at -0.1% in June, and also extended the deadline for its pandemic-relief programme from September 2021 to March 2022. In a further move to boost growth, policymakers unveiled a new scheme to provide funds to financial institutions that invest or extend loans related to climate change issues. Japan's CPI hovered around 0%, higher than previous deflation due to the rise in global oil prices, although inflation expectations were unchanged.

In China, GDP growth slowed to 0.6% q/q in Q1 2021 from 3.2% the previous quarter. The People's Bank of China again left its lending rates on hold in June, while noting in its Q1 monetary report that it was more worried about an uneven economic recovery, weak consumer spending and lack of private business investment than rising prices. The government continued its crackdown on the large local IT and fintech companies, introducing more regulations regarding financing and microlending in a bid to curb "monopolistic" practices online.

For the second quarter of 2021, Japan's Nikkei 225 returned -1.6%, the MSCI China produced 2.3% and Hong Kong's Hang Seng delivered 2.9% (all in US$).

Among other large emerging equity markets, in US$ terms Brazil's Bovespa was by far the best performer with a 22.3% return, rebounding from a disastrous Q1, while the MSCI Russia delivered 14.4%. The MSCI India posted a respectable 7.0% and South Korea's KOSPI 6.3%, but the MSCI South Africa and MSCI Turkey both ended in the red with -1.3% and -0.2%, respectively, all in US$.

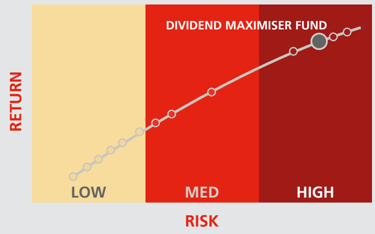
After gaining over 22% in the first quarter of 2021, the spot price of Brent crude oil rose another 18.2% in Q2, for an increase of 45% so far in 2021, fuelling inflation around the globe. As for commodity prices, most were higher over the quarter with the exception of platinum, which lost 7.4%. The gold price gained 4.5% for the quarter, and palladium was up 3.5%, giving it a 40% gain over the past 12 months. Industrial metals were also stronger: nickel rose 14.6%, aluminium 11% and copper 6%.

Turning to South Africa, economic growth surprised to the upside as Q1 2021 GDP growth measured 4.6% q/q annualised, notably higher than the 2.5% market forecast. Despite the gradual recovery, Stats SA noted that the economy's absolute size was equivalent to that last seen in Q1 2016, five years earlier. Covid-19 vaccine supplies continued to make their way into the country and the government's vaccination

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	B CLASS	F CLASS
1 year	30.1%	25.0%	30.3%	30.5%	30.6%
3 years	7.2%	5.5%	7.5%	7.5%	7.8%
5 years	7.5%	4.6%	7.9%	7.9%	8.2%
7 years	6.5%	4.2%	n/a	6.9%	n/a
10 years	10.5%	8.1%	n/a	10.9%	n/a
Since inception	16.0%	13.0%	6.6%	10.6%	8.2%

Inception date B Class: 2 January 2007, T Class: 2 January 2015, F Class: 1 June 2016

RISK/RETURN PROFILE:



FUND MANAGERS:
Ross Biggs and Kaitlin Byrne

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
ASISA South African – Equity - General Category Mean

INCEPTION DATE:
2 August 1999

FUND SIZE:
R3 765 825 267

AWARDS:
Raging Bull: 2006, 2008
Morningstar/Standard & Poor's: 2007, 2009

Sources: Prudential, Morningstar & Deutsche Securities

programme made headway, but this progress was overshadowed in June as the third wave of Covid infections gathered pace, driven by the more transmissible Delta variant. This prompted President Cyril Ramaphosa to reintroduce Level 2, and subsequently Level 4, lockdown measures, again curtailing vital economic and social activity.

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Finally, the rand appreciated against the major global currencies over the quarter, rising strongly from its oversold position in April and May before retracing some gains in June. It gained 3.3% against the US dollar, 3.1% versus the pound sterling and 2.4% against the euro over the three months.

PERFORMANCE

The fund delivered a return of 2.2% (net of fees) for the second quarter of 2021, outperforming its benchmark (the average of the general equity funds) by 1.7%. For the year ended 30 June 2021, the fund returned 30.1% (net of fees), outperforming its benchmark by 5.1%

The fund's dual focus of buying undervalued companies with strong cash flows and dividends remains core.

The fund's overweight position to Textainer Group Holdings was once again the largest stock contributor to outperformance over the last quarter. Textainer is one of the worlds' largest container leasing companies and leases containers to shipping companies. Going into the pandemic, the business was in a strong position to take advantage of some opportunities that arose. We have been exceptionally impressed with how the company's management has allocated capital. The company has been able to buy back a substantial number of shares at extremely attractive prices and we think this smart allocation of cash should further accelerate the improvement of returns from the company. The container leasing market's fortunes have rapidly improved over the last year and Textainer has managed to put a substantial amount of capital to work by buying a large amount of containers and leasing them out over the long term at very attractive rentals. Despite this large investment, we expect Textainer to also be able to resume the payment of dividends this year which is indeed an exciting milestone for the company and investors.

Combined Motor Holdings was among the fund's largest stock contributors to performance. We were able to buy a position in this motor car retail company at good prices over the last year as the market feared the worst for this sector. The company has come through the Covid-19 crisis exceptionally well and has managed to generate a significant amount of cash flow over the last year. We expect exceptionally-low interest rates to be very supportive of car retail in the coming years and expect strong dividend growth from this company over the next three years. The share price appreciated by 45% over the last quarter.

The pace of profit recovery and concerns over further bad debts arising from Covid-19 related constraints are still weighing on the share performance for South African banks, despite many banks resuming the distribution of dividends. We continue to believe that this might be a very good opportunity to buy banks in South Africa at very undemanding valuations, and for this reason, we have one of our larger sector overweights to the banks sector. While the Covid-19 virus shutdown resulted in significant concern over the potential for bad debts in the banking sector, we believe that the associated share price falls provide a substantial risk premium. We continue to be overweight Standard Bank, ABSA and Investec. Capitec, in which the fund does not hold a position, was the largest detractor from relative performance over the last quarter. The recovery in Capitec's share price has been very strong and is now trading above its pre-pandemic levels. While we remain overweight the banks sector, we think there is also good opportunity to generate alpha within this sector by being overweight relatively undervalued banks versus the banks such as Capitec and FirstRand. While we rate FirstRand and Capitec more highly in terms of quality, we cannot ignore that that they are substantially more highly rated than other banks in the sector.

During the quarter, platinum group metals prices fell, in particular rhodium and palladium. As we have commented previously, this sector's fortunes have rapidly improved after many years of earning margins which on average were not high enough to even compensate the mines for ongoing maintenance capex. Today, margins in the sector are at near-record highs and cash generation is very strong. Once-indebted companies have been able to substantially pay down or pay off all the debt that they had accumulated. We are cognisant of the high margins that companies are currently earning, but moved to an underweight position in the platinum sector in the first quarter of the year due to rising valuations of platinum companies. This underweight positioning benefited the fund in the second quarter.

The fund's overweight position in MTN was also a key contributor to the outperformance over the quarter. The market has been very concerned about the risks of doing business in Nigeria, where MTN has a significant business. While we do not disagree that investing in Nigeria requires a higher risk premium, we think that MTN presents excellent value and continues to be one of the larger overweight positions in the fund. MTN is trading on a dividend yield of over 6%, which we think should be able to grow over the next five years. MTN has been steadily reducing debt levels on its balance sheet by realising non-core assets like their tower assets. We think that this process will not only ensure a stable and growing dividend but will also reduce any balance sheet risk.

We continue to think that offshore equity markets look attractive, but over the last year we have seen opportunities to reduce our offshore weighting based on the relative attractiveness of the SA market. The fund is approximately 20% invested offshore, mainly through the Prudential Global Equity Fund and the M&G Global Dividend Fund. The offshore allocation to the Prudential Global Equity Fund was a large contributor to outperformance over the last quarter as global markets outperformed the South African equity market. The rand was a headwind to this outperformance as it appreciated by 3.3% relative to the USD over the quarter.

We acknowledge that while it is very difficult to forecast the future and we do not make any attempt to do this, we do spend a lot of time thinking about the economic cycles that various sectors are in, and where valuations are. In this way, we aim to try make money for our clients through these cycles and continue to try buy companies that have proven dividend and cash flow track records and which can withstand the normal upheavals that occur in markets over time. We aim to continue building risk-cognisant portfolios that seek to add value through stock selection relative to the benchmark.

STRATEGY AND POSITIONING

We remain optimistic regarding the South African equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. Going into the Covid-19 pandemic, the South African market, in our view, was already undervalued and has fallen to levels which we think are exceptionally attractive. The price-to-book value ratio of the JSE remains close to 1.7X as at the end of June 2021. We also note that within the South

Sources: Prudential, Morningstar & Deutsche Securities

African market, many commodity companies continue to experience substantial upgrades in their revenue and earnings, as the prices of platinum group metals, coal and iron ore continue to remain elevated. These strong commodity prices are not only helpful to the companies mining them, but are also broadly helpful to the South African economy. We have therefore reallocated some capital out of the mining sector and into some South African economy-focused companies.

South African assets appear to be undervalued relative to emerging and developed markets. We believe that earnings and dividends in South Africa should show a strong return to growth over the medium term. This growth in dividends is based mainly on a return to more normal profit margins amongst the mining companies and related industries, which we are already witnessing, as well as a resumption of dividends from banks and SA industrial companies.

The focus of the fund continues to be on finding companies that are undervalued and which are paying good dividend yields with the potential to pay growing dividends over the long run. We are confident that we have built a portfolio of attractively priced stocks that in aggregate is cheaper than owning the index, yet still capable of delivering attractive underlying growth independent of the economic cycle in which we find ourselves. ■

Sources: Prudential, Morningstar & Deutsche Securities

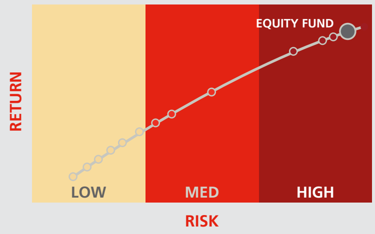
PRUDENTIAL EQUITY FUND
30 JUNE 2021

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

RISK/RETURN PROFILE:



FUND MANAGERS:
Chris Wood and Yusuf Mowlana

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
ASISA South African - Equity - General Category Mean

INCEPTION DATE:
2 August 1999

FUND SIZE:
R3 730 245 233

AWARDS:
Raging Bull: 2006, 2007, 2008
Morningstar/Standard & Poor's: 2007, 2008

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Meanwhile, the approval of even more US government spending helped support the global growth outlook, as did improving conditions in the UK and Europe. However, emerging market equities lagged those of developed markets, and South African equities broadly underperformed their EM peers due largely to the market's high Resources exposure, after outperforming in Q1.

In the US, the economy gathered speed as Q1 GDP growth was recorded at a final 6.4% (q/q annualised) and Q1 consumer spending jumped 11.1% y/y, amid a ramp-up in factory production and signs of labour shortages in some areas. Bullish sentiment was further stoked by the bipartisan approval of a five-year, US$1.2trn infrastructure spending plan. At its June policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, easing investor concerns over rising inflation, while also signalling two 0.25% interest rate hikes by the end of 2023. Longer-dated US Treasuries rallied on the accommodative stance, helping flatten the UST yield curve after its steepening trend in previous quarters. This was despite headline consumer inflation of 5.0% y/y in May, its highest rate in nearly 13 years, which policymakers consider to be temporary.

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In China, GDP growth slowed to 0.6% q/q in Q1 2021 from 3.2% the previous quarter. The People's Bank of China again left its lending rates on hold in June, while noting in its Q1 monetary report that it was more worried about an uneven economic recovery, weak consumer spending and lack of private business investment than rising prices. The government continued its crackdown on the large local IT and fintech companies, introducing more regulations regarding financing and microlending in a bid to curb "monopolistic" practices online.

For the second quarter of 2021, Japan's Nikkei 225 returned -1.6%, the MSCI China produced 2.3% and Hong Kong's Hang Seng delivered 2.9% (all in US$).

Among other large emerging equity markets, in US$ terms Brazil's Bovespa was by far the best performer with a 22.3% return, rebounding from a disastrous Q1, while the MSCI Russia delivered 14.4%. The MSCI India posted a respectable 7.0% and South Korea's KOSPI 6.3%, but the MSCI South Africa and MSCI Turkey both ended in the red with -1.3% and -0.2%, respectively, all in US$.

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ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS	F CLASS
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3 years	8.6%	5.5%	9.0%	9.4%
5 years	9.1%	4.6%	9.6%	9.9%
7 years	7.4%	4.2%	7.8%	n/a
10 years	11.4%	8.1%	11.8%	n/a
Since inception	16.1%	13.0%	11.3%	9.9%

Inception dates: B Class: 2 January 2007, F Class: 1 June 2016

Sources: Prudential, Morningstar & Deutsche Securities

variant. This prompted President Cyril Ramaphosa to reintroduce Level 2, and subsequently Level 4, lockdown measures, again curtailing vital economic and social activity.

Meanwhile, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5% at its 20 May MPC meeting, warning that slow progress on vaccinations, limited energy supply and policy uncertainty continue to pose downside risks to the economic outlook. This was despite the jump in consumer inflation to 4.4% y/y in April and 5.2% y/y in May, attributed largely to the previous low base. The central bank raised its growth forecasts for 2021 from 3.8% to 4.2%, but lowered its projections for 2022 and 2023 to 2.3% and 2.4% respectively. It is also projecting two 25bps interest rate hikes in 2021.

During the quarter global credit rating agencies S&P and Fitch reaffirmed South Africa's long-term sovereign credit rating at BB-, citing an upturn in near-term economic performance and improved public finances as contributing factors. Moody's, however, postponed its review on South Africa's credit rating, which currently sits at Ba2 with a negative outlook.

The FTSE/JSE ALSI was roughly flat for the second quarter, returning 0.05%, while the FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned 0.6%. The standout sector was Listed Property (the All Property Index) with an 11.1% total return. Financials delivered 7.5% and Industrials eked out 0.8%, but the Resources Index returned -5.0%. This performance reflected the value still seen in "SA Inc" counters, which have lagged during the recovery, and the growing view that Resources shares may be reaching the end of their bull run.

Finally, the rand appreciated against the major global currencies over the quarter, rising strongly from its oversold position in April and May before retracing some gains in June. It gained 3.3% against the US dollar, 3.1% versus the pound sterling and 2.4% against the euro over the three months.

PERFORMANCE

The fund returned 3.1% (net of fees) for the second quarter of 2021, outperforming its benchmark by 2.5%. This brings the fund's total return for the 12 months ending June 2021 to 36.9% (net of fees), outperforming its benchmark by 11.9% over the same period.

We are pleased that the fund maintains a top-quartile ranking versus its peer group over the long term, continuing to achieve demonstrably better outcomes for clients than the opportunity set available in the South African equity sector.

For the quarter, the major contributors to performance were overweight positions in Investec, Textainer, Novus and Foschini. Underweight positions in Richemont, Capitec and Transaction Capital detracted from relative performance, as did overweight positions in Northam, Multichoice and Naspers.

It is pleasing to see the likes of Foschini and Truworths contribute positively to performance. Prior to the onset of the Covid-19 pandemic and the associated decline in the market, the fund had a zero weight in the discretionary South African retailers and was more defensively positioned with exposure to the South African retailers via Pick 'n Pay. The pandemic saw many of these companies sell-off to cheap levels. Despite the recovery in the share prices of these companies, the valuations remain attractive. We are most positive on the longer-term prospects for Foschini given that the company has sound operations in Australia and managed to enter the 'value' fashion category via the acquisition of JET last year. The company also has pivoted its business towards a greater proportion of cash sales as opposed to credit, which makes for more robust earnings, and is also well prepared to benefit from trends towards online shopping.

Within the commodities space, the underweight position in the platinum group metal sector has contributed to performance. Here, our preference remains Northam for its growing production profile, de-risked balance sheet and relatively low-cost operations. Our preference within the general mining space is for Glencore as the company has high exposure to metals that will stand to benefit in the longer term from increased electrification of the energy system, and with favourable demand and supply characteristics, such as copper.

Within the banks, we favour Investec, Standard Bank and ABSA over more expensive or less attractive investments such as FirstRand, Capitec and Nedbank. Valuations in the banking sector are cheap, with improvements in earnings likely to come from a normalisation of abnormal credit losses incurred during the last year.

We retain an underweight position to the insurance sector despite optically cheap valuations. The sector will face some earnings headwinds and is growth-challenged at best.

Our positioning in the property sector has served the fund well, as SA Corporate tripled from the bottom and Growthpoint has also performed well. We are deeply concerned by the recent looting at the malls and warehouses in Gauteng and KZN, although we must emphasise that the number of tenants and properties affected are small in relation to the total portfolio values. There will undoubtedly be some negative second-order effects that remain to be seen.

During the quarter, shareholders of Prosus also voted in favour of a share swap which will see Naspers shareholders tender a portion of their shares for shares in Prosus.

STRATEGY AND POSITIONING

Our outlook on the absolute return prospects of the fund and alpha opportunities going forward is constructive. There are cheap valuations in the market, and the South African economy (despite the headlines) has some tailwinds in the form of high commodity prices. The risk-cognisant approach of the fund will ensure that investors will enjoy the benefits of inexpensive valuations without taking excessive risk. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL SA EQUITY FUND
30 JUNE 2021

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

During the second quarter (Q2) of 2021, more progress in vaccine rollouts worldwide, as well as positive corporate earnings reports and economic news, continued to lift equity returns, particularly in developed markets, even as concerns emerged over high valuations. It was no coincidence that cheaper, out-of-favour equities like Listed Property were among the strongest performers, while more expensive sectors like Resources underperformed.

Economic growth surprised to the upside in South Africa as Q1 2021 GDP growth measured 4.6% q/q annualised, notably higher than the 2.5% market forecast. Despite the gradual recovery, Stats SA noted that the economy's absolute size was equivalent to that last seen in Q1 2016, five years earlier. Covid-19 vaccine supplies continued to make their way into the country and the government's vaccination programme made headway, but this progress was overshadowed in June as the third wave of Covid infections gathered pace, driven by the more transmissible Delta variant. This prompted President Cyril Ramaphosa to reintroduce Level 2, and subsequently Level 4, lockdown measures, again curtailing vital economic and social activity.

Meanwhile, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5% at its 20 May MPC meeting, warning that slow progress on vaccinations, limited energy supply and policy uncertainty continue to pose downside risks to the economic outlook. This was despite the jump in consumer inflation to 4.4% y/y in April and 5.2% y/y in May, attributed largely to the previous low base. The central bank raised its growth forecasts for 2021 from 3.8% to 4.2%, but lowered its projections for 2022 and 2023 to 2.3% and 2.4% respectively. It is also projecting two 25bps interest rate hikes in 2021.

During the quarter global credit rating agencies S&P and Fitch reaffirmed South Africa's long-term sovereign credit rating at BB-, citing an upturn in near-term economic performance and improved public finances as contributing factors. Moody's, however, postponed its review on South Africa's credit rating, which currently sits at Ba2 with a negative outlook.

The FTSE/JSE ALSI was roughly flat for the second quarter, returning 0.05%, while the FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned 0.6%. The standout sector was Listed Property (the All Property Index) with an 11.1% total return. Financials delivered 7.5% and Industrials eked out 0.8%, but the Resources Index returned -5.0%. This performance reflected the value still seen in "SA Inc" counters, which have lagged during the recovery, and the growing view that Resources shares may be reaching the end of their bull run.

Finally, the rand appreciated against the major global currencies over the quarter, rising strongly from its oversold position in April and May before retracing some gains in June. It gained 3.3% against the US dollar, 3.1% versus the pound sterling and 2.4% against the euro over the three months.

PERFORMANCE

The fund delivered a return of 1.4% (net of fees) for the second quarter of 2021, outperforming its benchmark by 0.8%. For the 12 months ending 30 June 2021, the fund returned 30.5% (net of fees), outperforming its benchmark by 2.9%. It is particularly pleasing to report that against this period of robust market returns, post the March 2020 sell-off, our stock picking has delivered alpha over both the three- and twelve-month periods ending 30 June 2021.

During the quarter, platinum group metals prices fell, in particular rhodium and palladium. As we have commented previously, this sector's fortunes have rapidly improved after many years of earning margins which on average were not high enough to even compensate the mines for ongoing maintenance capex. Today, margins in the sector are at near-record highs and cash generation is very strong. Once-indebted companies have been able to substantially pay down or pay off all the debt that they had accumulated. We are cognisant of the high margins that companies are currently earning, but moved to an underweight position in the platinum sector in the first quarter of the year due to rising valuations of platinum companies. This underweight positioning benefited the fund in the second quarter.

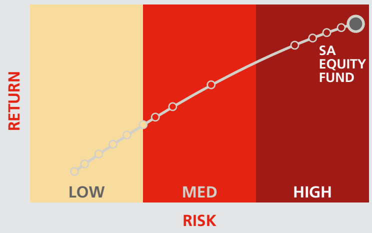
Within the industrial sector, domestic retailers once again performed well on the back of better-than-expected trading. We have observed many SA-listed businesses that have emerged from last year's Covid-19 induced lockdowns in a stronger position than when they went in. One such company is The Foschini Group (TFG), which was the strongest contributor to fund performance for the second quarter. TFG, in our opinion, will benefit substantially from its purchase of JET over the next three years. TFG was able to buy JET at a bargain-basement price from the financially distressed Edcon Group last year. Although the price of TFG has increased, we think that there is still substantial upside on a three-year view. Truworths was also a top-five contributor to performance over the last quarter. Much like TFG, we thought that the market was overly concerned about bad debts that might arise on their credit book as a result of the pandemic. We have increased our weight to Truworths as the current environment has provided us with the opportunity to buy what we believe to be a high-quality company at a good price, where earnings should recover strongly over the next few years.

The pace of profit recovery and concerns over further bad debts arising from Covid-19 related constraints is still weighing on the share performance for South African banks, despite many banks resuming the distribution of dividends. We continue to believe that this might be a very good opportunity to buy banks in South Africa at very undemanding valuations, and for this reason, we have one of our larger sector overweights to the banks sector. While the Covid-19 virus shutdown resulted in significant concern over the potential for bad debts in the banking sector, we believe that the associated share price falls provide a substantial risk premium. We continue to be overweight Standard Bank, ABSA and Investec. Investec Bank was a significant contributor to performance over the last quarter as the share price recovered from exceptionally

ANNUALISED PERFORMANCE	B CLASS	BENCHMARK*	F CLASS
1 year	32.0%	27.6%	30.5%
3 years	4.4%	4.8%	3.2%
5 years	6.2%	4.8%	n/a
7 years	5.5%	4.7%	n/a
10 years	10.3%	9.2%	n/a
Since inception	14.9%	13.1%	4.9%

* The Fund's benchmark changed from the FTSE/JSE All Share Index (TR) to the FTSE/JSE Capped SWIX All Share Index (TR) on 1 July 2017.
Inception date F Class: 1 July 2016

RISK/RETURN PROFILE:



FUND MANAGERS:
Ross Biggs, Chris Wood, Leonard Krüger and Aadil Omar

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
FTSE/JSE Capped SWIX All Share Index

INCEPTION DATE:
21 September 2000

FUND SIZE:
R36 979 346 834

Sources: Prudential, Morningstar & Deutsche Securities

undervalued levels. Capitec, in which the fund does not hold a position, was the largest detractor from relative performance over the last quarter. The recovery in Capitec's share price has been very strong and is now trading above its pre-pandemic levels. While we remain overweight the banks sector, we think there is also good opportunity to generate alpha within this sector by being overweight relatively undervalued banks versus the banks such as Capitec and FirstRand. While we rate FirstRand and Capitec more highly in terms of quality, we cannot ignore that that they are substantially more highly rated than other banks in the sector.

The fund's overweight position in MTN was also a key contributor to the outperformance over the quarter. The market has been very concerned about the risks of doing business in Nigeria, where MTN has a significant business. While we do not disagree that investing in Nigeria requires a higher risk premium, we think that MTN presents excellent value and continues to be one of the larger overweight positions in the fund. MTN is trading on a dividend yield of over 6%, which we think should be able to grow over the next five years. MTN has been steadily reducing debt levels on its balance sheet by realising non-core assets like their tower assets. We think that this process will not only ensure a stable and growing dividend but will also reduce any balance sheet risk.

Property, banks and clothing retailers are typically the most interest-rate sensitive sectors in the South African economy. We had been underweight property for many years, but in 2020 as a result of significant price declines in the property sector, we started to increase the fund's weight to this sector and now have an overweight position. The market appears to be aware of all the risks facing the property sector, and as a result, valuations have fallen to very reasonable levels. The fund benefited from our overweight to Growthpoint Property in the last quarter following a strong performance from the property sector.

We acknowledge that while it is very difficult to forecast the future and we do not make any attempt to do this, we do spend a lot of time thinking about the economic cycles that various sectors are in, and where valuations are. In this way, we aim to make money for our clients through these cycles and continue to try and buy companies that have proven dividend and cash-flow track records, and which can withstand the normal upheavals that occur in markets over time. We aim to continue building risk-cognisant portfolios that seek to add value through stock selection relative to the benchmark.

STRATEGY AND POSITIONING

We remain optimistic regarding the South African equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. Going into the Covid-19 pandemic, the South African market, in our view, was already undervalued and has fallen to levels which we think are exceptionally attractive. The price-to-book value ratio of the JSE remains close to 1.7X as at the end of June 2021. We also note that within the South African market, many commodity companies continue to experience substantial upgrades in their revenue and earnings, as the prices of platinum group metals, coal and iron ore continue to remain elevated. These strong commodity prices are not only helpful to the companies mining them, but are also broadly helpful to the South African economy. We have therefore reallocated some capital out of the mining sector and into some South African economy-focused companies.

South African assets appear to be undervalued relative to emerging and developed markets. We believe that earnings and dividends in South Africa should show a strong return to growth over the medium term. This growth in dividends is based mainly on a return to more normal dividends amongs the mining companies and banks whose balance sheets are now very healthy.

The focus of the fund continues to be on finding companies that are undervalued and which can grow earnings and dividends over the long run. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL BOND FEEDER FUND
30 JUNE 2021

QUARTERLY COMMENTARY

GLOBAL INCOME

MARKET OVERVIEW

During the second quarter (Q2) of 2021, more progress in vaccine rollouts worldwide, as well as positive corporate earnings reports and economic news, continued to lift equity returns, particularly in developed markets, even as concerns emerged over high valuations. Bonds – both government and corporate credit – also recorded solid performances, retracing some of their Q1 losses and buoyed by reassurances from central banks that easy monetary policies would not be halted any time soon. Meanwhile, the approval of even more US government spending helped support the global growth outlook, as did improving conditions in the UK and Europe. However, emerging market equities lagged those of developed markets.

In the US, the economy gathered speed as Q1 GDP growth was recorded at a final 6.4% (q/q annualised) and Q1 consumer spending jumped 11.1% y/y, amid a ramp-up in factory production and signs of labour shortages in some areas. Bullish sentiment was further stoked by the bipartisan approval of a five-year, US$1.2trn infrastructure spending plan. At its June policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, easing investor concerns over rising inflation, while also signalling two 0.25% interest rate hikes by the end of 2023. Longer-dated US Treasuries rallied on the accommodative stance, helping flatten the UST yield curve after its steepening trend in previous quarters. This was despite headline consumer inflation of 5.0% y/y in May, its highest rate in nearly 13 years, which policymakers consider to be temporary.

In the UK, the rapid spread of the Covid-19 Delta variant, in the face of the country's successful implementation of its vaccination programme, proved to be a setback for the economy's anticipated full reopening in June, dampening market sentiment to some extent. The latest GDP figures proved equally bleak as the economy shrank by 6.1% y/y in Q1 2021. Despite this, the Bank of England upgraded its growth forecast for the year to 7.25% from 5% in February, and left its key interest rate unchanged as expected, while warning against any "premature tightening" until it reached its GDP growth and inflation goals.

In the EU, Q1 GDP contracted by 1.7% y/y, disappointing most analysts on the back of slower-than-expected vaccine programme rollouts and the emergence of more contagious virus variants which forced extended lockdown measures. On the other hand, later in the quarter, consumer and business sentiment recorded strong rebounds, albeit not yet reaching pre-Covid levels.

Meanwhile, the European Central Bank (ECB) left interest rates on hold at its June policy meeting, with President Christine Lagarde injecting some bullish sentiment by emphasizing that growth in the region should pick up amid stronger global growth and consumer spending, and that the central bank would continue its bond purchases and other supportive monetary measures. Unlike the US Fed, she refrained from signalling when the ECB might start to ease its accommodative policy. Consumer inflation in the EU rose to 2.3% y/y in May, due largely to a low annual base effect.

Japan's economic contraction for Q1 2021 was revised to -3.9% y/y from a previously estimated -5.1% y/y, above market expectations of -4.8% y/y. However, further restrictions to economic activity due to the worsening spread of the Coronavirus, particularly in the Tokyo region, have led many to expect Q2 growth to be weaker, and again in negative territory. The Bank of Japan left its key short-term interest rate unchanged at -0.1% in June, and also extended the deadline for its pandemic-relief programme from September 2021 to March 2022. In a further move to boost growth, policymakers unveiled a new scheme to provide funds to financial institutions that invest or extend loans related to climate change issues. Japan's CPI hovered around 0%, higher than previous deflation due to the rise in global oil prices, although inflation expectations were unchanged.

In China, GDP growth slowed to 0.6% q/q in Q1 2021 from 3.2% the previous quarter. The People's Bank of China again left its lending rates on hold in June, while noting in its Q1 monetary report that it was more worried about an uneven economic recovery, weak consumer spending and lack of private business investment than rising prices. The government continued its crackdown on the large local IT and fintech companies, introducing more regulations regarding financing and microlending in a bid to curb "monopolistic" practices online.

Finally, the rand appreciated against the major global currencies over the quarter, rising strongly from its oversold position in April and May before retracing some gains in June. It gained 3.3% against the US dollar, 3.1% versus the pound sterling and 2.4% against the euro over the three months.

PERFORMANCE

The fund delivered a return of -0.1% (net of fees) for the second quarter of 2021, outperforming its benchmark by 1.9%. For the year ended 30 June 2021, the fund returned -13.1% (net of fees) as the rand strength detracted 18% from performance, outperforming its benchmark by 3.3%.

Contributing to absolute performance over the quarter was the fund's broad exposure to investment grade bonds (US dollar/euro/sterling); emerging market hard currency bonds in both US dollar and euro hedged share classes as well as US Treasuries held for diversification and duration management. Exposure to Japanese government bonds detracted marginally from performance.

STRATEGY AND POSITIONING

Portfolio positioning continues to reflect our preference for emerging market government bonds, both local (e.g. South African bonds) and hard currency.

During the quarter, we reduced the allocation to US investment grade bonds, which had been trading close to record spread tightness, in favour of emerging market local bonds, where spreads were much more favourable. Similarly, we switched some exposure to US dollar floating rate bonds into US Treasuries, as the floating rate bonds were no longer providing meaningful compensation for their potential illiquidity relative to cash.

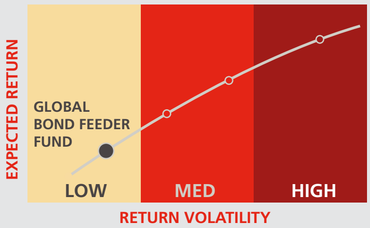
We remain highly active within the global bond asset class, seeking positive exposures on emerging market government bonds, hard currency and soft currency investment grade corporate bonds because of the better real yields they can offer compared to developed market government bonds, where we tend to be underweight versus the reference index.

Spreads in developed market investment grade and high yield credit have become increasingly tight, leaving only emerging market hard currency and local currency debt as offering fair yields, in our view. We have exposure to the long end of the US Treasury curve based on diversification potential and relative value versus the long end of the other mainstream government bond curves. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	-13.1%	-15.6%	-12.8%
3 years	6.2%	5.7%	n/a
5 years	2.2%	1.8%	n/a
7 years	5.5%	6.2%	n/a
10 years	10.2%	10.0%	n/a
Since inception	8.1%	8.1%	8.0%

Inception date B Class: 2 July 2018

RISK/RETURN PROFILE:



INVESTMENT MANAGER OF THE UNDERLYING FUND:
M&G Investment Management Limited (UK)

FUND MANAGERS OF THE UNDERLYING FUND:
Marc Beckenstrater and Craig Simpson

ASISA CATEGORY:
Global - Interest Beating - Variable Term

BENCHMARK:
Bloomberg Barclays Global Aggregate Bond Index

INCEPTION DATE:
27 October 2000

FUND SIZE:
R600 446 236

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL INFLATION PLUS FEEDER FUND
30 JUNE 2021

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

During the second quarter (Q2) of 2021, more progress in vaccine rollouts worldwide, as well as positive corporate earnings reports and economic news, continued to lift equity returns, particularly in developed markets, even as concerns emerged over high valuations. Bonds – both government and corporate credit – also recorded solid performances, retracing some of their Q1 losses and buoyed by reassurances from central banks that easy monetary policies would not be halted any time soon. Meanwhile, the approval of even more US government spending helped support the global growth outlook, as did improving conditions in the UK and Europe. However, emerging market equities lagged those of developed markets.

In the US, the economy gathered speed as Q1 GDP growth was recorded at a final 6.4% (q/q annualised) and Q1 consumer spending jumped 11.1% y/y, amid a ramp-up in factory production and signs of labour shortages in some areas. Bullish sentiment was further stoked by the bipartisan approval of a five-year, US$1.2trn infrastructure spending plan. At its June policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, easing investor concerns over rising inflation, while also signalling two 0.25% interest rate hikes by the end of 2023. Longer-dated US Treasuries rallied on the accommodative stance, helping flatten the UST yield curve after its steepening trend in previous quarters. This was despite headline consumer inflation of 5.0% y/y in May, its highest rate in nearly 13 years, which policymakers consider to be temporary. Spurred by the improving growth outlook, US equity markets continued to rally for the quarter (although June gains were more subdued), with the S&P 500 delivering an 8.5% return, the Dow Jones Industrial 30 5.1%, and the technology-heavy Nasdaq 100 11.4% (all in US$).

In the UK, the rapid spread of the Covid-19 Delta variant, in the face of the country's successful implementation of its vaccination programme, proved to be a setback for the economy's anticipated full reopening in June, dampening market sentiment to some extent. The latest GDP figures proved equally bleak as the economy shrank by 6.1% y/y in Q1 2021. Despite this, the Bank of England upgraded its growth forecast for the year to 7.25% from 5% in February, and left its key interest rate unchanged as expected, while warning against any "premature tightening" until it reached its GDP growth and inflation goals.

In the EU, Q1 GDP contracted by 1.7% y/y, disappointing most analysts on the back of slower-than-expected vaccine programme rollouts and the emergence of more contagious virus variants which forced extended lockdown measures. On the other hand, later in the quarter, consumer and business sentiment recorded strong rebounds, albeit not yet reaching pre-Covid levels.

Meanwhile, the European Central Bank (ECB) left interest rates on hold at its June policy meeting, with President Christine Lagarde injecting some bullish sentiment by emphasizing that growth in the region should pick up amid stronger global growth and consumer spending, and that the central bank would continue its bond purchases and other supportive monetary measures. Unlike the US Fed, she refrained from signalling when the ECB might start to ease its accommodative policy. Consumer inflation in the EU rose to 2.3% y/y in May, due largely to a low annual base effect.

For the quarter, French equities far outperformed their regional counterparts as the CAC 40 delivered 10.1%, the UK's FTSE 100 5.8%, and the German DAX 4.4% (all in US$).

Japan's economic contraction for Q1 2021 was revised to -3.9% y/y from a previously estimated -5.1% y/y, above market expectations of -4.8% y/y. However, further restrictions to economic activity due to the worsening spread of the Coronavirus, particularly in the Tokyo region, have led many to expect Q2 growth to be weaker, and again in negative territory. The Bank of Japan left its key short-term interest rate unchanged at -0.1% in June, and also extended the deadline for its pandemic-relief programme from September 2021 to March 2022. In a further move to boost growth, policymakers unveiled a new scheme to provide funds to financial institutions that invest or extend loans related to climate change issues. Japan's CPI hovered around 0%, higher than previous deflation due to the rise in global oil prices, although inflation expectations were unchanged.

In China, GDP growth slowed to 0.6% q/q in Q1 2021 from 3.2% the previous quarter. The People's Bank of China again left its lending rates on hold in June, while noting in its Q1 monetary report that it was more worried about an uneven economic recovery, weak consumer spending and lack of private business investment than rising prices. The government continued its crackdown on the large local IT and fintech companies, introducing more regulations regarding financing and microlending in a bid to curb "monopolistic" practices online.

For the second quarter of 2021, Japan's Nikkei 225 returned -1.6%, the MSCI China produced 2.3% and Hong Kong's Hang Seng delivered 2.9% (all in US$).

Among other large emerging equity markets, in US$ terms Brazil's Bovespa was by far the best performer with a 22.3% return, rebounding from a disastrous Q1, while the MSCI Russia delivered 14.4%. The MSCI India posted a respectable 7.0% and South Korea's KOSPI 6.3%, but the MSCI South Africa and MSCI Turkey both ended in the red with -1.3% and -0.2%, respectively, all in US$.

Finally, the rand appreciated against the major global currencies over the quarter, rising strongly from its oversold position in April and May before retracing some gains in June. It gained 3.3% against the US dollar, 3.1% versus the pound sterling and 2.4% against the euro over the three months.

PERFORMANCE

The fund delivered a return of 1.4% (net of fees) for the second quarter of 2021, while global inflation measured -1.6%. For the year ended 30 June 2021, the fund returned -3.2% (net of fees) as rand strength detracted from absolute performance, while global inflation measured -14.9% year-on-year.

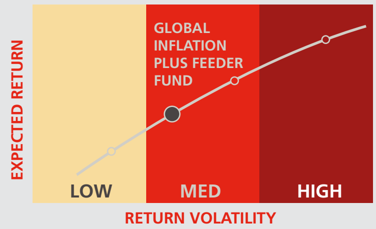
Contributors to absolute performance over the quarter came from the fund's broad exposure to US and European equities; M&G's machine learning and quantitative risk premia funds; US dollar investment grade corporate bonds; US Treasuries held for duration management and diversification purposes as well as Turkish government bonds.

STRATEGY AND POSITIONING

The fund is now much more defensively positioned in terms of major risk assets, as markets have rallied and reduced potential returns. It remains tilted in favour of corporate credit and emerging market sovereign bonds in the fixed income portion, with a more muted preference for equities. For context, global inflation (based on the OECD Major 7 CPI Total Index) was 3.5% for the rolling year ended 31 May 2021.

During the quarter, we reduced the allocation to US investment grade bonds, which had been trading close to record spread tightness in

RISK/RETURN PROFILE:



INVESTMENT MANAGER OF THE UNDERLYING FUND:
M&G Investment Management Limited (UK)

FUND MANAGERS OF THE UNDERLYING FUND:
Marc Beckenstrater and Craig Simpson

ASISA CATEGORY:
Global - Multi-Asset - Low Equity

BENCHMARK:
Global inflation

INCEPTION DATE:
1 March 2004

FUND SIZE:
R203 374 553

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK*	B CLASS
1 year	-3.2%	-14.9%	-2.9%
3 years	7.9%	2.1%	8.2%
5 years	5.3%	1.3%	5.6%
7 years	7.5%	5.0%	7.8%
10 years	10.5%	8.6%	n/a
Since inception	7.7%	6.2%	8.7%

Inception date B Class: 1 July 2013
* The Fund's benchmark changed from the ASISA Global - Multi Asset - Low Equity Category Mean to Global Inflation on 1 November 2018.

Sources: Prudential, Morningstar & Deutsche Securities

favour of emerging market local bonds, where spreads were much more favourable. Similarly, we switched some exposure to US dollar floating rate bonds into US Treasuries, as the floating rate bonds were no longer providing meaningful compensation for their potential illiquidity relative to cash. We also chose to replace a passive property equity holding with exposure to the new Prudential Global Property Fund as we consider it more attractive in terms of potential returns.

Since the coronavirus pandemic began, the policies of governments and central banks to support their economies have largely been effective and the global economy is arguably in better shape today than most would have predicted this time last year. Investors are now considering whether central banks can time a graceful exit from these policies and what might be the unintended consequences of doing so.

We believe that, despite some commentators' interpretation of the Fed's increased hawkishness as a significant policy shift, the reality is more subtle. It could be interpreted as the central bank reminding the market that, although long-term inflation is not an issue right now, it remains part of their mandate. We continue to see inflation as transitory. However, we expect this debate to persist until ultimately settled by time and more data points and anticipate that there could be further volatility ahead.

At the moment, we therefore remain positive on the economic cycle, but think it is prudent to prepare for potential volatility and 'episodic' price moves ahead as the market digests new economic data and central bank rhetoric. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL BALANCED FEEDER FUND
30 JUNE 2021

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

During the second quarter (Q2) of 2021, more progress in vaccine rollouts worldwide, as well as positive corporate earnings reports and economic news, continued to lift equity returns, particularly in developed markets, even as concerns emerged over high valuations. Bonds – both government and corporate credit – also recorded solid performances, retracing some of their Q1 losses and buoyed by reassurances from central banks that easy monetary policies would not be halted any time soon. Meanwhile, the approval of even more US government spending helped support the global growth outlook, as did improving conditions in the UK and Europe. However, emerging market equities lagged those of developed markets.

In the US, the economy gathered speed as Q1 GDP growth was recorded at a final 6.4% (q/q annualised) and Q1 consumer spending jumped 11.1% y/y, amid a ramp-up in factory production and signs of labour shortages in some areas. Bullish sentiment was further stoked by the bipartisan approval of a five-year, US$1.2trn infrastructure spending plan. At its June policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, easing investor concerns over rising inflation, while also signalling two 0.25% interest rate hikes by the end of 2023. Longer-dated US Treasuries rallied on the accommodative stance, helping flatten the UST yield curve after its steepening trend in previous quarters. This was despite headline consumer inflation of 5.0% y/y in May, its highest rate in nearly 13 years, which policymakers consider to be temporary. Spurred by the improving growth outlook, US equity markets continued to rally for the quarter (although June gains were more subdued), with the S&P 500 delivering an 8.5% return, the Dow Jones Industrial 30 5.1%, and the technology-heavy Nasdaq 100 11.4% (all in US$).

In the UK, the rapid spread of the Covid-19 Delta variant, in the face of the country's successful implementation of its vaccination programme, proved to be a setback for the economy's anticipated full reopening in June, dampening market sentiment to some extent. The latest GDP figures proved equally bleak as the economy shrank by 6.1% y/y in Q1 2021. Despite this, the Bank of England upgraded its growth forecast for the year to 7.25% from 5% in February, and left its key interest rate unchanged as expected, while warning against any "premature tightening" until it reached its GDP growth and inflation goals.

In the EU, Q1 GDP contracted by 1.7% y/y, disappointing most analysts on the back of slower-than-expected vaccine programme rollouts and the emergence of more contagious virus variants which forced extended lockdown measures. On the other hand, later in the quarter, consumer and business sentiment recorded strong rebounds, albeit not yet reaching pre-Covid levels.

Meanwhile, the European Central Bank (ECB) left interest rates on hold at its June policy meeting, with President Christine Lagarde injecting some bullish sentiment by emphasizing that growth in the region should pick up amid stronger global growth and consumer spending, and that the central bank would continue its bond purchases and other supportive monetary measures. Unlike the US Fed, she refrained from signalling when the ECB might start to ease its accommodative policy. Consumer inflation in the EU rose to 2.3% y/y in May, due largely to a low annual base effect.

For the quarter, French equities far outperformed their regional counterparts as the CAC 40 delivered 10.1%, the UK's FTSE 100 5.8%, and the German DAX 4.4% (all in US$).

Japan's economic contraction for Q1 2021 was revised to -3.9% y/y from a previously estimated -5.1% y/y, above market expectations of -4.8% y/y. However, further restrictions to economic activity due to the worsening spread of the Coronavirus, particularly in the Tokyo region, have led many to expect Q2 growth to be weaker, and again in negative territory. The Bank of Japan left its key short-term interest rate unchanged at -0.1% in June, and also extended the deadline for its pandemic-relief programme from September 2021 to March 2022. In a further move to boost growth, policymakers unveiled a new scheme to provide funds to financial institutions that invest or extend loans related to climate change issues. Japan's CPI hovered around 0%, higher than previous deflation due to the rise in global oil prices, although inflation expectations were unchanged.

In China, GDP growth slowed to 0.6% q/q in Q1 2021 from 3.2% the previous quarter. The People's Bank of China again left its lending rates on hold in June, while noting in its Q1 monetary report that it was more worried about an uneven economic recovery, weak consumer spending and lack of private business investment than rising prices. The government continued its crackdown on the large local IT and fintech companies, introducing more regulations regarding financing and microlending in a bid to curb "monopolistic" practices online.

For the second quarter of 2021, Japan's Nikkei 225 returned -1.6%, the MSCI China produced 2.3% and Hong Kong's Hang Seng delivered 2.9% (all in US$).

Among other large emerging equity markets, in US$ terms Brazil's Bovespa was by far the best performer with a 22.3% return, rebounding from a disastrous Q1, while the MSCI Russia delivered 14.4%. The MSCI India posted a respectable 7.0% and South Korea's KOSPI 6.3%, but the MSCI South Africa and MSCI Turkey both ended in the red with -1.3% and -0.2%, respectively, all in US$.

Finally, the rand appreciated against the major global currencies over the quarter, rising strongly from its oversold position in April and May before retracing some gains in June. It gained 3.3% against the US dollar, 3.1% versus the pound sterling and 2.4% against the euro over the three months.

PERFORMANCE

The fund delivered a return of 3.2% (net of fees) for the second quarter of 2021, outperforming its benchmark by 1.0%. For the year ended 30 June 2021, the fund returned 6.4% (net of fees), outperforming its benchmark by 2.0%.

Contributors to absolute performance over the quarter came from the fund's broad exposure to US and European equities; M&G's machine learning and quantitative risk premia funds; US dollar investment grade corporate bonds as well as US Treasuries held for duration management and diversification purposes.

STRATEGY AND POSITIONING

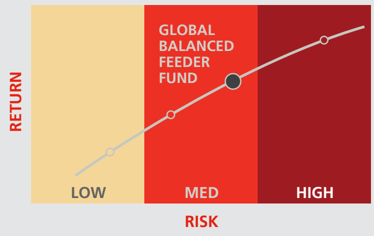
The fund is now much more defensively positioned in terms of the major risk assets than previously, as markets have rallied and reduced potential returns. We continue to have a preference for equities over government bonds, particularly those from Japan, Europe and the UK. We are constructive on emerging market hard currency and local debt.

During the quarter, we reduced the allocation to US investment grade bonds, which had been trading close to record spread tightness in favour of emerging market local bonds, where spreads were much more favourable. We also reduced our allocation to US equities on the basis that they have started to become expensive, using the proceeds to buy US Treasuries. We chose to replace a passive property equity holding with exposure to new Prudential Global Property Fund as we consider it more attractive in terms of potential returns.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	6.4%	4.4%	6.4%
2 years	12.2%	14.7%	12.1%
3 years	9.1%	12.8%	9.1%

Inception date B Class: 28 June 2018

RISK/RETURN PROFILE:



INVESTMENT MANAGER OF THE UNDERLYING FUND:
M&G Investment Management Limited (UK)

FUND MANAGERS OF THE UNDERLYING FUND:
Marc Beckenstrater and Craig Simpson

ASISA CATEGORY:
Global - Multi Asset - High Equity

BENCHMARK:
65% MSCI All Country World Index TR (Net), 5% FTSE EPRA/NAREIT Global REIT Index, 25% Bloomberg Barclays Global Aggregate Bond Index, 5% USD 1m LIBOR

INCEPTION DATE:
28 June 2018

FUND SIZE:
R40 088 763

Sources: Prudential, Morningstar & Deutsche Securities

Since the coronavirus pandemic began, the policies of governments and central banks to support their economies have largely been effective and the global economy is arguably in better shape today than most would have predicted this time last year. Investors are now considering whether central banks can time a graceful exit from these policies and what might be the unintended consequences of doing so.

We believe that, despite some commentators' interpretation of the Fed's increased hawkishness as a significant policy shift, the reality is more subtle. It could be interpreted as the central bank reminding the market that, although long-term inflation is not an issue right now, it remains part of their mandate. We continue to see inflation as transitory. However, we expect this debate to persist until ultimately settled by time and more data points and anticipate that there could be further volatility ahead.

At the moment, we therefore remain positive on the economic cycle, but think it is prudent to prepare for potential volatility and 'episodic' price moves ahead as the market digests new economic data and central bank rhetoric. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL EQUITY FEEDER FUND
30 JUNE 2021

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL EQUITY

MARKET OVERVIEW

During the second quarter (Q2) of 2021, more progress in vaccine rollouts worldwide, as well as positive corporate earnings reports and economic news, continued to lift equity returns, particularly in developed markets, even as concerns emerged over high valuations. Bonds – both government and corporate credit – also recorded solid performances, retracing some of their Q1 losses and buoyed by reassurances from central banks that easy monetary policies would not be halted any time soon. Meanwhile, the approval of even more US government spending helped support the global growth outlook, as did improving conditions in the UK and Europe. However, emerging market equities lagged those of developed markets.

In the US, the economy gathered speed as Q1 GDP growth was recorded at a final 6.4% (q/q annualised) and Q1 consumer spending jumped 11.1% y/y, amid a ramp-up in factory production and signs of labour shortages in some areas. Bullish sentiment was further stoked by the bipartisan approval of a five-year, US$1.2trn infrastructure spending plan. At its June policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, easing investor concerns over rising inflation, while also signalling two 0.25% interest rate hikes by the end of 2023. Longer-dated US Treasuries rallied on the accommodative stance, helping flatten the UST yield curve after its steepening trend in previous quarters. This was despite headline consumer inflation of 5.0% y/y in May, its highest rate in nearly 13 years, which policymakers consider to be temporary. Spurred by the improving growth outlook, US equity markets continued to rally for the quarter (although June gains were more subdued), with the S&P 500 delivering an 8.5% return, the Dow Jones Industrial 30 5.1%, and the technology-heavy Nasdaq 100 11.4% (all in US$).

In the UK, the rapid spread of the Covid-19 Delta variant, in the face of the country's successful implementation of its vaccination programme, proved to be a setback for the economy's anticipated full reopening in June, dampening market sentiment to some extent. The latest GDP figures proved equally bleak as the economy shrank by 6.1% y/y in Q1 2021. Despite this, the Bank of England upgraded its growth forecast for the year to 7.25% from 5% in February, and left its key interest rate unchanged as expected, while warning against any "premature tightening" until it reached its GDP growth and inflation goals.

In the EU, Q1 GDP contracted by 1.7% y/y, disappointing most analysts on the back of slower-than-expected vaccine programme rollouts and the emergence of more contagious virus variants which forced extended lockdown measures. On the other hand, later in the quarter, consumer and business sentiment recorded strong rebounds, albeit not yet reaching pre-Covid levels.

Meanwhile, the European Central Bank (ECB) left interest rates on hold at its June policy meeting, with President Christine Lagarde injecting some bullish sentiment by emphasizing that growth in the region should pick up amid stronger global growth and consumer spending, and that the central bank would continue its bond purchases and other supportive monetary measures. Unlike the US Fed, she refrained from signalling when the ECB might start to ease its accommodative policy. Consumer inflation in the EU rose to 2.3% y/y in May, due largely to a low annual base effect.

For the quarter, French equities far outperformed their regional counterparts as the CAC 40 delivered 10.1%, the UK's FTSE 100 5.8%, and the German DAX 4.4% (all in US$).

Japan's economic contraction for Q1 2021 was revised to -3.9% y/y from a previously estimated -5.1% y/y, above market expectations of -4.8% y/y. However, further restrictions to economic activity due to the worsening spread of the Coronavirus, particularly in the Tokyo region, have led many to expect Q2 growth to be weaker, and again in negative territory. The Bank of Japan left its key short-term interest rate unchanged at -0.1% in June, and also extended the deadline for its pandemic-relief programme from September 2021 to March 2022. In a further move to boost growth, policymakers unveiled a new scheme to provide funds to financial institutions that invest or extend loans related to climate change issues. Japan's CPI hovered around 0%, higher than previous deflation due to the rise in global oil prices, although inflation expectations were unchanged.

In China, GDP growth slowed to 0.6% q/q in Q1 2021 from 3.2% the previous quarter. The People's Bank of China again left its lending rates on hold in June, while noting in its Q1 monetary report that it was more worried about an uneven economic recovery, weak consumer spending and lack of private business investment than rising prices. The government continued its crackdown on the large local IT and fintech companies, introducing more regulations regarding financing and microlending in a bid to curb "monopolistic" practices online.

For the second quarter of 2021, Japan's Nikkei 225 returned -1.6%, the MSCI China produced 2.3% and Hong Kong's Hang Seng delivered 2.9% (all in US$).

Among other large emerging equity markets, in US$ terms Brazil's Bovespa was by far the best performer with a 22.3% return, rebounding from a disastrous Q1, while the MSCI Russia delivered 14.4%. The MSCI India posted a respectable 7.0% and South Korea's KOSPI 6.3%, but the MSCI South Africa and MSCI Turkey both ended in the red with -1.3% and -0.2%, respectively, all in US$.

Finally, the rand appreciated against the major global currencies over the quarter, rising strongly from its oversold position in April and May before retracing some gains in June. It gained 3.3% against the US dollar, 3.1% versus the pound sterling and 2.4% against the euro over the three months.

PERFORMANCE

The fund delivered a return of 7.7% (net of fees) for the second quarter of 2021, outperforming its benchmark by 3.9%. For the year ended 30 June 2021, the fund returned 25.8% (net of fees), outperforming its benchmark by 11.3%.

Style had a significant positive contribution over the quarter, with positive exposure to stocks with strong momentum being the key contributor, complemented by positive contribution from high growth stocks.

STRATEGY AND POSITIONING

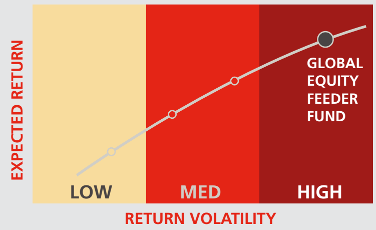
The portion of the fund managed using its proprietary machine learning model is approximately 80%, with the balance of approximately 20% remaining in strategic ETFs. The ETF allocation is primarily used for liquidity purposes and is expected to fall over time. At the factor level, the fund currently exhibits positive active exposure to momentum, high volatility and smaller cap companies, while being relative neutral to value.

Since the coronavirus pandemic began, the policies of governments and central banks to support their economies have largely been effective and the global economy is arguably in better shape today than most would have predicted this time last year. Investors are now

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	25.8%	14.5%	26.2%
3 years	16.0%	16.1%	n/a
5 years	13.8%	14.0%	n/a
7 years	13.1%	14.5%	n/a
10 years	16.7%	18.4%	n/a
Since inception	8.3%	9.5%	17.4%

Inception date B Class: 2 July 2018

RISK/RETURN PROFILE:



INVESTMENT MANAGER OF THE UNDERLYING FUND:
M&G Investment Management Limited (UK)

FUND MANAGERS OF THE UNDERLYING FUND:
Marc Beckenstrater and Gautam Samarth

ASISA CATEGORY:
Global - Equity - General

BENCHMARK:
MSCI All Country World Index (Net)

INCEPTION DATE:
18 February 2000

FUND SIZE:
R468 398 464

Sources: Prudential, Morningstar & Deutsche Securities

considering whether central banks can time a graceful exit from these policies and what might be the unintended consequences of doing so.

We believe that, despite some commentators' interpretation of the Fed's increased hawkishness as a significant policy shift, the reality is more subtle. It could be interpreted as the central bank reminding the market that, although long-term inflation is not an issue right now, it remains part of their mandate. We continue to see inflation as transitory. However, we expect this debate to persist until ultimately settled by time and more data points and anticipate that there could be further volatility ahead.

At the moment, we therefore remain positive on the economic cycle. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL 2.5% TARGET INCOME FUND
30 JUNE 2021

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

TARGET INCOME

FUND MANAGERS:
David Knee, Michael Moyle, Sandile Malinga and Leonard Krüger

ASISA CATEGORY:
The Fund is unclassified given its unique investment objective.

PRIMARY OBJECTIVE:
2.5% Income return p.a.

INCEPTION DATE:
2 April 2019

FUND SIZE:
R100 244 829

MARKET OVERVIEW

During the second quarter (Q2) of 2021, more progress in vaccine rollouts worldwide, as well as positive corporate earnings reports and economic news, continued to lift equity returns, particularly in developed markets, even as concerns emerged over high valuations. Bonds – both government and corporate credit – also recorded solid performances, retracing some of their Q1 losses and buoyed by reassurances from central banks that easy monetary policies would not be halted any time soon. It was no coincidence that cheaper, out-of-favour equities like Listed Property were among the strongest performers, while more expensive sectors like Resources underperformed.

Meanwhile, the approval of even more US government spending helped support the global growth outlook, as did improving conditions in the UK and Europe. However, emerging market equities lagged those of developed markets, and South African equities broadly underperformed their EM peers due largely to the market's high Resources exposure, after outperforming in Q1. In contrast, South African nominal government bonds posted strong returns compared to those of many other countries over the three months.

In the US, the economy gathered speed as Q1 GDP growth was recorded at a final 6.4% (q/q annualised) and Q1 consumer spending jumped 11.1% y/y, amid a ramp-up in factory production and signs of labour shortages. Bullish sentiment was further stoked by the bipartisan approval of a five-year, US$1.2trn infrastructure spending plan.

At its June policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, easing investor concerns over rising inflation, while also signalling two 0.25% interest rate hikes by the end of 2023. Longer-dated US Treasuries rallied on the accommodative stance, helping flatten the UST yield curve after its steepening trend in previous quarters. This was despite headline consumer inflation of 5.0% y/y in May, its highest rate in nearly 13 years, which policymakers consider to be temporary.

Spurred by the improving growth outlook, US equity markets continued to rally for the quarter (although June gains were more subdued), with the S&P 500 delivering an 8.5% return, the Dow Jones Industrial 30 5.1%, and the technology-heavy Nasdaq 100 11.4% (all in US$).

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Japan's economic contraction for Q1 2021 was revised to -3.9% y/y from a previously estimated -5.1% y/y, above market expectations of -4.8% y/y. However, further restrictions to economic activity due to the worsening spread of the Coronavirus, particularly in the Tokyo region, have led many to expect Q2 growth to be weaker. The Bank of Japan left its key short-term interest rate unchanged at -0.1% in June, and also extended the deadline for its pandemic-relief programme from September 2021 to March 2022.

In China, GDP growth slowed to 0.6% q/q in Q1 2021 from 3.2% the previous quarter. The People's Bank of China again left its lending rates on hold in June, while noting in its Q1 monetary report that it was more worried about an uneven economic recovery, weak consumer spending and lack of private business investment than rising prices. For the second quarter of 2021, Japan's Nikkei 225 returned -1.6%, the MSCI China produced 2.3% and Hong Kong's Hang Seng delivered 2.9% (all in US$).

Among other large emerging equity markets, in US$ terms Brazil's Bovespa was by far the best performer with a 22.3% return, rebounding from a disastrous Q1, while the MSCI Russia delivered 14.4%. The MSCI India posted a respectable 7.0% and South Korea's KOSPI 6.3%, but the MSCI South Africa and MSCI Turkey both ended in the red with -1.3% and -0.2%, respectively, all in US$.

After gaining over 22% in the first quarter of 2021, the spot price of Brent crude oil rose another 18.2% in Q2, for an increase of 45% so far in 2021, fuelling inflation around the globe. As for commodity prices, most were higher over the quarter with the exception of platinum, which lost 7.4%. The gold price gained 4.5% for the quarter, and palladium was up 3.5%, giving it a 40% gain over the past 12 months. Industrial metals were also stronger: nickel rose 14.6%, aluminium 11% and copper 6%.

South Africa

Economic growth surprised to the upside in South Africa as Q1 2021 GDP growth measured 4.6% q/q annualised, notably higher than the 2.5% market forecast. Covid-19 vaccine supplies continued to make their way into the country and the government's vaccination programme made headway, but this progress was overshadowed in June as President Cyril Ramaphosa was forced to reintroduce Level 4 lockdown measures in the face of the spreading third wave of Covid infections.

Meanwhile, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5% at its 20 May MPC meeting, warning that slow progress on vaccinations, limited energy supply and policy uncertainty continued to pose downside risks to the economic outlook. This was despite the jump in consumer inflation to 4.4% y/y in April and 5.2% y/y in May, attributed largely to the previous low base. The central bank raised its growth forecasts for 2021 from 3.8% to 4.2%, but lowered its projections for 2022 and 2023 to 2.3% and 2.4% respectively. It is also projecting two 25bps interest rate hikes in 2021.

The FTSE/JSE ALSI was roughly flat for the second quarter, returning 0.05%, while the FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned 0.6%.The standout sector was Listed Property (the All Property Index) with an 11.1% total return. Financials delivered 7.5% and Industrials eked out 0.8%, but the Resources Index returned -5.0%. This performance reflected the value still seen in "SA Inc" counters, which have lagged during the recovery, and the growing view that Resources shares may be reaching the end of their bull run.

SA bonds posted a strong 6.9% return (as measured by the FTSE/JSE All Bond Index), remaining sought-after sources of yield for global investors compared to many other sovereign bonds. SA inflation-linked bonds produced 3.0% (Composite ILB Index) on the back of somewhat softer demand for inflation protection, and cash (STeFI Composite) delivered 0.9%.

Finally, the rand appreciated against the major global currencies over the quarter, rising strongly from its oversold position in April and May before retracing some gains in June. It gained 3.3% against the US dollar, 3.1% versus the pound sterling and 2.4% against the euro over the three months.

ANNUALISED PERFORMANCE	A CLASS	CPI	B CLASS
1 year	21.0%	5.2%	21.5%
2 years	5.2%	3.6%	5.6%

Inception date: B Class: 2 April 2019

Sources: Prudential, Morningstar & Deutsche Securities

PERFORMANCE

The Prudential 2.5% Target Income Fund returned 2.3% (after fees) for the second quarter of 2021 and 21.0% for the 12-month period ending 30 June 2021. The largest asset-class contributor to the fund's absolute performance for the quarter was its exposure to SA equities, followed by SA nominal bonds, SA listed property and global equities. Its holding in global bonds had a neutral contribution over the quarter, and it holds no SA ILBs.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in a variety of stocks like MTN, Foschini, Richemont and PPC, while its exposure to financial counters including Investec, Absa, Standard Bank, Remgro and Old Mutual also added good value . Top detractors from absolute performance included Naspers, Anglo American Platinum, Impala Platinum and Northam.

STRATEGY AND POSITIONING

The fund was launched in April 2019 as a restructured successor to the 2.5% Prudential Income Portfolio (PIP) range, which had built up a successful track record since 2007. The restructuring was undertaken to improve certain aspects of our PIP range of income solutions to make them more understandable for clients, more efficient from an investment point of view and, where relevant, potentially more tax efficient.

It is important to remember that by definition, the Prudential Target Income Funds are managed as long-term strategies that aim to, firstly, deliver their income requirement, and secondly, grow capital in order to meet future income requirements.

Because of its relatively low income target, the 2.5% Target Income Fund is the most aggressive of the range of our target income funds in terms of asset allocation. Currently approximately 70% of the portfolio is exposed to local and offshore equities, while around 5% is in SA listed property, 10% in SA nominal bonds and 6% in SA cash. The remainder is invested in global bonds and cash. The equity allocation remains the primary driver of returns, and there is no exposure to SA ILBs.

Starting with our view on **offshore asset allocation**, we are neutrally positioned in global equities. Within our global equity positioning, as US equities continued to be expensive compared to other markets, the fund kept its underweight positioning in the US market in favour of selected European and emerging market equities. We have been aiming to position our portfolios with higher weightings of very high-returning global assets while maintaining a mix of assets that have diversified return profiles. At quarter-end we were overweight emerging market equities and underweight developed market equities.

We continued to be **underweight global government bonds** and **investment grade corporate credit** at quarter-end given the low levels of yield and credit spreads.

We were still overweight **SA equities** in Q2. SA equity valuations (as measured by the forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) became somewhat more attractive over the quarter, moving from around 9.7X at the beginning of the quarter to around 9.2X at quarter-end as equity prices moved sideways but earnings expectations rose. This improvement in valuations was insufficient to cause us to change our allocation to SA equity as competing assets also remained attractive.

Within SA equities, in broad terms our exposure to large global companies (in particular Resources groups and Naspers) did not work in our favour over the quarter due to rand appreciation and underperformance from some of these shares. However, our continued overweight to financial stocks added to portfolio value with contributions from Investec, Absa, Standard Bank, Remgro and Old Mutual as notable performers. Other good returns came from our exposure to retailers like Foschini and Truworths, as well as MTN, Richemont and PPC. A large detractor to performance over the period was our holding in Naspers, which was under threat from Chinese regulators and garnered negative investor sentiment regarding its proposed share exchange with associate company Prosus. Our basic resources holdings such as Amplats and Anglo American also detracted from value.

We have maintained our positioning in **SA listed property** in Q2 2021. Listed property has been the best-performing sector (and asset class) so far this year, recording a 20.1% return over the six months to end-June, but earnings have been broadly flat and the sector's forward earnings yield has fallen from 11.5% to 10.25% due to price appreciation. In our view, although it is encouraging that earnings have not deteriorated further and we may be reaching the end of the downward trend with the current earnings stabilisation, it is still too early to call. Our positioning therefore reflects our belief that risks around property company earnings remain high, combined with the continuing relatively high debt levels in the sector. We have ensured that we are holding high-quality companies with strong balance sheets within our small exposure to the sector, like Growthpoint.

SA nominal bonds enjoyed strong returns in Q2, and the fund benefitted from its overweight exposure to these assets. We continue to be overweight in this asset class and tilted towards longer-dated maturities, which returned more than their shorter-dated counterparts over the three months (12+-year maturities returned 10.1% in Q2 vs the All Bond Index's 6.9% return). With the yield on the R209 15-year bond ending June at 10.1%, for example, these securities remain attractive relative to other income assets and their own longer-term history. We believe they will more than compensate investors for their associated risks.

Although market volatility remains high in the short term, we believe the fund is well-positioned to meet its objectives over the next three to five years, and we continue to take advantage of opportunities to enhance long-term returns. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL 5% TARGET INCOME FUND
30 JUNE 2021

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

TARGET INCOME

FUND MANAGERS:
David Knee, Michael Moyle, Sandile Malinga and Leonard Krüger

ASISA CATEGORY:
The Fund is unclassified given its unique investment objective.

PRIMARY OBJECTIVE:
5% Income return p.a.

INCEPTION DATE:
2 April 2019

FUND SIZE:
R202 318 496

MARKET OVERVIEW

During the second quarter (Q2) of 2021, more progress in vaccine rollouts worldwide, as well as positive corporate earnings reports and economic news, continued to lift equity returns, particularly in developed markets, even as concerns emerged over high valuations. Bonds – both government and corporate credit – also recorded solid performances, retracing some of their Q1 losses and buoyed by reassurances from central banks that easy monetary policies would not be halted any time soon. It was no coincidence that cheaper, out-of-favour equities like Listed Property were among the strongest performers, while more expensive sectors like Resources underperformed.

Meanwhile, the approval of even more US government spending helped support the global growth outlook, as did improving conditions in the UK and Europe. However, emerging market equities lagged those of developed markets, and South African equities broadly underperformed their EM peers due largely to the market's high Resources exposure, after outperforming in Q1. In contrast, South African nominal government bonds posted strong returns compared to those of many other countries over the three months.

In the US, the economy gathered speed as Q1 GDP growth was recorded at a final 6.4% (q/q annualised) and Q1 consumer spending jumped 11.1% y/y, amid a ramp-up in factory production and signs of labour shortages. Bullish sentiment was further stoked by the bipartisan approval of a five-year, US$1.2trn infrastructure spending plan.

At its June policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, easing investor concerns over rising inflation, while also signalling two 0.25% interest rate hikes by the end of 2023. Longer-dated US Treasuries rallied on the accommodative stance, helping flatten the UST yield curve after its steepening trend in previous quarters. This was despite headline consumer inflation of 5.0% y/y in May, its highest rate in nearly 13 years, which policymakers consider to be temporary.

Spurred by the improving growth outlook, US equity markets continued to rally for the quarter (although June gains were more subdued), with the S&P 500 delivering an 8.5% return, the Dow Jones Industrial 30 5.1%, and the technology-heavy Nasdaq 100 11.4% (all in US$).

In the UK, the rapid spread of the Covid-19 Delta variant, in the face of the country's successful implementation of its vaccination programme, proved to be a setback for the economy's anticipated full reopening in June, dampening market sentiment to some extent. The latest GDP figures proved equally bleak as the economy shrank by 6.1% y/y in Q1 2021. In the EU, Q1 GDP contracted by 1.7% y/y, while the European Central Bank (ECB) left interest rates on hold at its June policy meeting. Consumer inflation in the EU rose to 2.3% y/y in May, due largely to a low annual base effect. For the quarter, French equities far outperformed their regional counterparts as the CAC 40 delivered 10.1%, the UK's FTSE 100 5.8%, and the German DAX 4.4% (all in US$).

Japan's economic contraction for Q1 2021 was revised to -3.9% y/y from a previously estimated -5.1% y/y, above market expectations of -4.8% y/y. However, further restrictions to economic activity due to the worsening spread of the Coronavirus, particularly in the Tokyo region, have led many to expect Q2 growth to be weaker. The Bank of Japan left its key short-term interest rate unchanged at -0.1% in June, and also extended the deadline for its pandemic-relief programme from September 2021 to March 2022.

In China, GDP growth slowed to 0.6% q/q in Q1 2021 from 3.2% the previous quarter. The People's Bank of China again left its lending rates on hold in June, while noting in its Q1 monetary report that it was more worried about an uneven economic recovery, weak consumer spending and lack of private business investment than rising prices. For the second quarter of 2021, Japan's Nikkei 225 returned -1.6%, the MSCI China produced 2.3% and Hong Kong's Hang Seng delivered 2.9% (all in US$).

Among other large emerging equity markets, in US$ terms Brazil's Bovespa was by far the best performer with a 22.3% return, rebounding from a disastrous Q1, while the MSCI Russia delivered 14.4%. The MSCI India posted a respectable 7.0% and South Korea's KOSPI 6.3%, but the MSCI South Africa and MSCI Turkey both ended in the red with -1.3% and -0.2%, respectively, all in US$.

After gaining over 22% in the first quarter of 2021, the spot price of Brent crude oil rose another 18.2% in Q2, for an increase of 45% so far in 2021, fuelling inflation around the globe. As for commodity prices, most were higher over the quarter with the exception of platinum, which lost 7.4%. The gold price gained 4.5% for the quarter, and palladium was up 3.5%, giving it a 40% gain over the past 12 months. Industrial metals were also stronger: nickel rose 14.6%, aluminium 11% and copper 6%.

South Africa

Economic growth surprised to the upside in South Africa as Q1 2021 GDP growth measured 4.6% q/q annualised, notably higher than the 2.5% market forecast. Covid-19 vaccine supplies continued to make their way into the country and the government's vaccination programme made headway, but this progress was overshadowed in June as President Cyril Ramaphosa was forced to reintroduce Level 4 lockdown measures in the face of the spreading third wave of Covid infections.

Meanwhile, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5% at its 20 May MPC meeting, warning that slow progress on vaccinations, limited energy supply and policy uncertainty continued to pose downside risks to the economic outlook. This was despite the jump in consumer inflation to 4.4% y/y in April and 5.2% y/y in May, attributed largely to the previous low base. The central bank raised its growth forecasts for 2021 from 3.8% to 4.2%, but lowered its projections for 2022 and 2023 to 2.3% and 2.4% respectively. It is also projecting two 25bps interest rate hikes in 2021.

The FTSE/JSE ALSI was roughly flat for the second quarter, returning 0.05%, while the FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned 0.6%.The standout sector was Listed Property (the All Property Index) with an 11.1% total return. Financials delivered 7.5% and Industrials eked out 0.8%, but the Resources Index returned -5.0%. This performance reflected the value still seen in "SA Inc" counters, which have lagged during the recovery, and the growing view that Resources shares may be reaching the end of their bull run.

SA bonds posted a strong 6.9% return (as measured by the FTSE/JSE All Bond Index), remaining sought-after sources of yield for global investors compared to many other sovereign bonds. SA inflation-linked bonds produced 3.0% (Composite ILB Index) on the back of somewhat softer demand for inflation protection, and cash (STeFI Composite) delivered 0.9%.

ANNUALISED PERFORMANCE	A CLASS	CPI	B CLASS
1 year	13.5%	5.2%	13.9%
2 years	5.2%	3.6%	5.6%

Inception date: B Class: 2 April 2019

Sources: Prudential, Morningstar & Deutsche Securities

Finally, the rand appreciated against the major global currencies over the quarter, rising strongly from its oversold position in April and May before retracing some gains in June. It gained 3.3% against the US dollar, 3.1% versus the pound sterling and 2.4% against the euro over the three months.

PERFORMANCE

The Prudential 5% Target Income Fund returned 4.5% (after fees) for the second quarter of 2021 and 13.5% for the 12-month period ending 30 June 2021. The largest asset-class contributors to absolute performance for the quarter were the fund's exposure to SA nominal bonds (by far), followed by global equities and SA equities. SA ILBs also added to returns. There were few detractors to the fund's absolute returns on an asset class basis, although global fixed income holdings were broadly flat.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in diverse stocks like MTN, Foschini, Growthpoint and Richemont, as well as financial counters like Investec, Absa, Standard Bank, Old Mutual and Remgro. Naspers was by far the largest equity detractor from absolute returns, while Resources holdings like Implats and Amplats also weighed on performance.

STRATEGY AND POSITIONING

The fund was launched in April 2019 as a restructured successor to the 5% Prudential Income Portfolio (PIP) range, which had built up a successful track record since 2003. The restructuring was undertaken to improve certain aspects of our PIP range of income solutions to make them more understandable for clients, more efficient from an investment point of view and, where relevant, potentially more tax efficient.

It is important to remember that by definition, the Prudential Target Income Funds are managed as long-term strategies that aim to, firstly, deliver their income requirement, and secondly, grow capital in order to meet future income requirements.

Because of its 5% income target, the fund has a moderately aggressive asset allocation positioning, with a lower exposure to equities, and higher exposure to bonds, than the 2.5% Target Income Fund. Currently approximately 30% of the portfolio is exposed to local and offshore equities, while around 5% is invested in SA listed property, 41% in SA nominal bonds, 4% in SA ILBs and 9% in SA cash. The remainder is invested in global bonds and cash.

Starting with our view on **offshore asset allocation**, we remained slightly overweight global equities versus global bonds, global property and cash during the quarter. Within our global equity positioning, as US equities continued to be expensive compared to other markets, the fund kept its underweight positioning in the US market in favour of selected European and emerging market equities. We have been aiming to position our portfolios with higher weightings of very high-returning global assets while maintaining a mix of assets that have diversified return profiles. At quarter-end we were overweight emerging market equities and underweight developed market equities.

We continued to be **underweight global government bonds** and **investment grade corporate credit** at quarter-end given the low levels of yield and credit spreads.

We were still overweight **SA equities** in Q2. SA equity valuations (as measured by the forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) became somewhat more attractive over the quarter, moving from around 9.7X at the beginning of the quarter to around 9.2X at quarter-end as equity prices moved sideways but earnings expectations rose. This improvement in valuations was insufficient to cause us to change our allocation to SA equity as competing assets also remained attractive.

Within SA equities, in broad terms our exposure to large global companies (in particular Resources groups and Naspers) did not work in our favour over the quarter due to rand appreciation and underperformance from some of these shares. However, our continued overweight to financial stocks added to portfolio value with contributions from Investec, Absa, Standard Bank, Remgro and Old Mutual as notable performers. Other good returns came from our exposure to retailers like Foschini and Truworths, as well as MTN, Growthpoint and Richemont. A large detractor to performance over the period was our holding in Naspers, which was under threat from Chinese regulators and garnered negative investor sentiment regarding its proposed share exchange with associate company Prosus. Our basic resources holdings such as Amplats and Implats also detracted from value.

We have maintained our positioning in **SA listed property** in Q2 2021. Listed property has been the best-performing sector (and asset class) so far this year, recording a 20.1% return over the six months to end-June, but earnings have been broadly flat and the sector's forward earnings yield has fallen from 11.5% to 10.25% due to price appreciation. In our view, although it is encouraging that earnings have not deteriorated further and we may be reaching the end of the downward trend with the current earnings stabilisation, it is still too early to call. Our positioning therefore reflects our belief that risks around property company earnings remain high, combined with the continuing relatively high debt levels in the sector. We have ensured that we are holding high-quality companies with strong balance sheets within our small exposure to the sector, like Growthpoint.

SA nominal bonds enjoyed strong returns in Q2, and the fund benefitted from its overweight exposure to these assets. During the quarter we moved further overweight, switching out of some of our exposure to SA inflation-linked bonds which had outperformed over the period, rendering nominal bonds relatively more attractive. We also remained tilted towards longer-dated maturities, which returned more than their shorter-dated counterparts over the three months (12+-year maturities returned 10.1% in Q2 vs the All Bond Index's 6.9% return). With the yield on the R209 15-year bond ending June at 10.1%, for example, these securities remain attractive relative to other income assets and their own longer-term history. We believe they will more than compensate investors for their associated risks.

We maintained the fund's exposure to **SA inflation-linked bonds (ILBs)** during the quarter. The gap between ILB and cash real yields narrowed on the back of the rally in ILBs as cash real yields were steady, but ILB real yields are still somewhat attractive compared to their own history and our long-run fair value assumption of 2.5%. ■

Although market volatility remains high in the short term, we believe the fund is well-positioned to meet its objectives over the next three to five years, and we continue to take advantage of opportunities to enhance long-term returns. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

TARGET INCOME

FUND MANAGERS:
David Knee, Michael Moyle, Sandile Malinga and Leonard Krüger

ASISA CATEGORY:
The Fund is unclassified given its unique investment objective.

PRIMARY OBJECTIVE:
7% Income return p.a.

INCEPTION DATE:
2 April 2019

FUND SIZE:
R404 283 971

MARKET OVERVIEW

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Meanwhile, the approval of even more US government spending helped support the global growth outlook, as did improving conditions in the UK and Europe. However, emerging market equities lagged those of developed markets, and South African equities broadly underperformed their EM peers due largely to the market's high Resources exposure, after outperforming in Q1. In contrast, South African nominal government bonds posted strong returns compared to those of many other countries over the three months.

After gaining over 22% in the first quarter of 2021, the spot price of Brent crude oil rose another 18.2% in Q2, for an increase of 45% so far in 2021, fuelling inflation around the globe. As for commodity prices, most were higher over the quarter with the exception of platinum, which lost 7.4%. The gold price gained 4.5% for the quarter, and palladium was up 3.5%, giving it a 40% gain over the past 12 months. Industrial metals were also stronger: nickel rose 14.6%, aluminium 11% and copper 6%.

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PERFORMANCE

The Prudential 7% Target Income Fund returned 5.9% (after fees) for the second quarter of 2021 and 14.9% for the 12-month period ending 30 June 2021.

The largest asset-class contributors to absolute performance for the quarter were the fund's exposure to SA nominal bonds (by far), followed by SA listed property and SA cash. SA equities and SA ILBs also added value. . There were no detractors to the fund's absolute returns on an asset class basis.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in listed property stocks like Growthpoint, Resilient, Redefine, NEPI Rockcastle and Vukile. Other diverse stocks like MTN, Foschini and Richemont also added to returns, as did financial counters like Investec and Old Mutual. Naspers was by far the largest equity detractor from absolute returns, while Resources holdings like Implats and Amplats also weighed on performance.

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It is important to remember that by definition, the Prudential Target Income Funds are managed as long-term strategies that aim to, firstly, deliver their income requirement, and secondly, grow capital in order to meet future income requirements.

Because of its high 7% income target, the fund has a higher exposure to income assets, such as bonds, and lower exposure to growth assets, such as equity, than the 5% Target Income Fund. Currently around 10% of the portfolio is exposed to local equities, while around 5% is invested in SA listed property, 66% in SA nominal bonds, 5% in SA ILBs and around 15% in SA cash. The fund has no international exposure.

The fund was still overweight **SA equities** in Q2. SA equity valuations (as measured by the forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) became somewhat more attractive over the quarter, moving from around 9.7X at the beginning of the quarter to around 9.2X at quarter-end as equity prices moved sideways but earnings expectations rose. This improvement in valuations was insufficient to cause us to change our allocation to SA equity as competing assets also remained attractive.

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